S. HRG. 98-107

MARITIME ADMINISTRATION REAUTHORIZATION

HEARING

BEFORE THE

SUBCOMMITTEE ON MERCHANT MARINE

OF THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

FIRST SESSION

ON

S. 125

TO AUTHORIZE APPROPRIATIONS FOR THE MARITIME CONSTRUCTION DIFFERENTIAL SUBSIDY FOR FISCAL YEAR 1984, TO PROMOTE A STRONG UNITED STATES MERCHANT MARINE, AND FOR OTHER PURPOSES

S. 1037

TO AUTHORIZE APPROPRIATIONS FOR THE FISCAL YEARS 1984 AND 1985 FOR CERTAIN MARITIME PROGRAMS OF THE DEPARTMENT OF TRANSPORTATION, AND FOR OTHER PURPOSES

S. 1038

TO AMEND THE MERCHANT MARINE ACT, 1936, AND FOR OTHER PURPOSES

APRIL 14, 1983

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MARITIME ADMINISTRATION REAUTHORIZATION AND MARITIME PROMOTIONAL PROGRAMS

THURSDAY, APRIL 14, 1983

U.S. SENATE,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
SUBCOMMITTEE ON MERCHANT MARINE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:40 a.m., in room SR-253, Russell Senate Office Building, Hon. Ted Stevens (chairman of the subcommittee) presiding.

Staff members assigned to this hearing: Peter Friedmann, staff counsel and John Hardy, minority staff counsel.

OPENING STATEMENT BY SENATOR STEVENS

Senator STEVENS. Good morning.

Today the Merchant Marine Subcommittee will begin consideration of various programs designed to promote the U.S. merchant marine. This morning we are going to consider three bills:

S. 1037 is a bill that I have introduced at the administration's request. It provides the basic authorization for the existing maritime promotional programs, particularly operating differential subsidies. While the State maritime academy witnesses will suggest additional funding for their schools above that proposed by the administration, we do not expect a real controversy over the administration's request.

We do anticipate a great deal of controversy concerning S. 1038, which is the administration's proposal for a new maritime promotion program, the cornerstone of which would allow the U.S. subsidized carriers to build vessels in foreign yards. Congress enacted this legislation 2 years ago and we will hear testimony today as to whether such a policy will be renewed.

Finally, we will hear testimony on S. 125, introduced by my good friend and colleague Senator Inouye and other Senators. That bill would authorize funds for the construction differential subsidies, a program which has been unfunded for the last 2 years.

We will hold additional hearings concerning other maritime promotional legislation during this session.

Senator Inouye, do you have an opening Statement?

OPENING STATEMENT BY SENATOR INOUYE

Senator INOUYE. Yes, Mr. Chairman.

I wish to thank the distinguished chairman of the subcommittee for including S. 125 in these hearings on MarAd's authorization. In view of the administration's proposal to build foreign permanently, it is especially important, in my judgment, that we have at least one alternative to consider.

I believe I reflect the views of the cosponsors of S. 125 when I say we are not absolutely committed to the permanent continuation of CDS, but we do believe it should be continued until Congress and the executive together can find a better way to insure the viability of our commercial shipbuilding industry and the growth and competitiveness of our merchant fleet.

This is a formidable task and it is long overdue. In the past 6 years this subcommittee has been hard at work under the leadership of the distinguished chairman of the subcommittee and his predecessor. I believe we will see further progress this year if Congress enacts the Ocean Shipping Act, S. 47, which the Senate recently passed.

Because the Senate has acted on S. 47, we are now in a position to address our maritime promotional needs. As we proceed, I believe it is essential that we do so with the same deliberation and public dialogue that characterized enactment of the Controlled Carrier Act, the antirebating laws, and Senate passage of S. 47.

The economic and national security implications of whatever we do are just too important to be decided without thorough study, investigation and public discussion. I hasten to add, however, that in my view time is of the essence, and I would hope we will accomplish our task this year.

The existing CDS program has been in effect since 1936 and was expanded in 1970. It has cost the Government money, but relative to the subsidies other governments provide their shipbuilding industries it has not been as costly. Nevertheless, there may be more effective ways of achieving our national maritime objectives, and I have long advocated that we try to find them. Meanwhile, however, we should not throw the baby out with the bathwater.

In an effort to determine the immediate demand for U.S. commercial vessels in our foreign trades, the cosponsors of S. 125 asked MarAd to furnish its traditional estimate. The agency replied that two liner vessels must be ordered in fiscal year 1984 because of replacement obligations; that they foresaw no plans to contract for ship conversions or retrofits in fiscal year 1984; and that there was no demand for new construction of U.S.-flag tankers or dry bulk vessels.

Under the circumstances, it seems to me that continuation of the statutory CDS program on a limited basis for fiscal year 1984, as S. 125 would do, would not only meet the immediate needs of the maritime industry, but give Congress the necessary time to consider thoroughly alternatives, including the administration's proposal and S. 1000, the bulk bill which Senator Trible has introduced.

I thank you very much.

Senator STEVENS. Thank you very much, Senator.

Senator INOUYE. Mr. Chairman, before proceeding I would like to ask that the statement by Senator Hollings be made a part of the record.

Senator STEVENS. Yes, it will be printed.

Thank you very much, Senator.
[The statement and bills referred to follow:]

OPENING STATEMENT BY SENATOR HOLLINGS

I am pleased the administration has sent up its maritime promotional ideas for consideration by the Committee at this hearing. Proposals to shore up our maritime industry are long overdue.

The U.S. maritime industry currently faces serious problems. And it is losing ground daily. Our commercial shipyards are inactive, and our maritime workers are losing their jobs. Fewer and fewer American ships are carrying cargo.

Because of heavily subsidized and protected unfair foreign competition, if it were not for existing U.S. maritime support programs, our own ships would be unable to compete in the world trades.

I had hoped that the Reagan administration would send us proposals which would help reverse the deteriorating state of the U.S. shipping industry. But I must say I could not be more disappointed than I am with the bill sent up by DOT last week. Although the announced intention of the legislation is to bolster the competitiveness and capabilities of the Nation's maritime industry, in fact, the effects will be just the opposite.

This bill appears to be just another manifestation of the Reagan administration's naive view that "free and open competition", the "market place" will cure all of this Nation's economic ills.

When it comes to the maritime industry, that view is just so much rose-colored hogwash. Market principles don't apply in this business. If we don't give support to our maritime industry, it will soon be gone.

And why is it so important to maintain a strong American maritime? Mr. Chairman, maritime means ships, and ships mean national security. It's as simple as that. We just can't afford not to have good ships, enough ships, ready at all times to quickly become an integrated part of our national defense capabilities. The Falklands experience surely must have taught us that lesson. And yet the administration proposals would weaken, not strengthen the American industry.

The administration bill presents us with complicated and controversial questions to consider. This Committee should take as much time as it needs to explore fully these issues and, if it so desires, to develop alternative proposals.

II

98TH CONGRESS
1ST SESSION

S. 125

To authorize appropriations for the maritime construction differential subsidy for fiscal year 1984, to promote a strong United States merchant marine, and for other purposes.

IN THE SENATE OF THE UNITED STATES

JANUARY 26 (legislative day, JANUARY 25), 1983

Mr. INOUYE (for himself, Mr. HOLLINGS, Mr. HEFLIN, Mr. LONG, and Mr. SARBANES) introduced the following bill; which was read twice and referred to the Committee on Commerce, Science, and Transportation

---

A BILL

To authorize appropriations for the maritime construction differential subsidy for fiscal year 1984, to promote a strong United States merchant marine, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That there is authorized to be appropriated without fiscal year limitation as the appropriation Act may provide for the use of the Department of Transportation, for the fiscal year 1984, not to exceed $200,000,000 for acquisition, construction, or reconstruction of vessels and construction-differential subsidy and cost of national defense features incident to the construction, reconstruction, or reconditioning of ships.

SEC. 2. Section 1103(f) of the Merchant Marine Act, 1936 (46 U.S.C. 1273(f)), is amended by striking "$12,000,000,000" and substituting "$15,000,000,000".

II

98TH CONGRESS
1ST SESSION

S. 1037

To authorize appropriations for the fiscal years 1984 and 1985 for certain maritime programs of the Department of Transportation, and for other purposes.

IN THE SENATE OF THE UNITED STATES

APRIL 12, 1983

Mr. STEVENS (by request) introduced the following bill; which was read twice and referred to the Committee on Commerce, Science, and Transportation

---

A BILL

To authorize appropriations for the fiscal years 1984 and 1985 for certain maritime programs of the Department of Transportation, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Maritime Appropriation Authorization Act for fiscal years 1984 and 1985".

SEC. 2. Funds are authorized to be appropriated without fiscal year limitation as the appropriation Act may provide for the use of the Department of Transportation for the fiscal year 1984, as follows:

(1) For payment of obligations incurred for operating-differential subsidy, not to exceed $401,294,000.

(2) For expenses necessary for research and development activities, not to exceed $11,500,000.

(3) For expenses necessary for operations and training activities, not to exceed $71,013,000, including not to exceed—

(A) $32,655,000 for maritime education and training expenses, including not to exceed $20,266,000 for maritime training at the Merchant Marine Academy at Kings Point, New York; $10,668,000 for financial assistance to state maritime academies; and $1,721,000 for expenses necessary for additional training;

(B) $8,048,000 for national security support capabilities, including not to exceed $6,999,000 for reserve fleet expenses, and $1,049,000 for emergency planning/operations; and

(C) $30,310,000 for other operations and training expenses.

SEC. 3. There are authorized to be appropriated without fiscal year limitation as the appropriation Act may provide for the use of the Department of Transportation, such sums as may be necessary for fiscal year 1985, to carry out the activities provided by section 209(b) of the Merchant Marine Act, 1936 (46 U.S.C. 1119(b)).

98TH CONGRESS
1ST SESSION

S. 1038

To amend the Merchant Marine Act, 1936, and for other purposes.

IN THE SENATE OF THE UNITED STATES

APRIL 12, 1983

Mr. STEVENS (by request) introduced the following bill; which was read twice and referred to the Committee on Commerce, Science, and Transportation

---

A BILL

To amend the Merchant Marine Act, 1936, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Merchant Marine Act of 1983".

TITLE I

SEC. 101. Section 615 of the Merchant Marine Act, 1936 (46 U.S.C. 1185), is amended as follows:

(a) Strike the "(a)" immediately following the section number.

(b) Strike the first sentence and insert the words "The Secretary of Transportation may authorize an operator re-

ceiving or applying for operating-differential subsidy under this title to construct or reconstruct its vessels in a foreign shipyard, or acquire such vessels outside the United States. No such authorization shall be given by the Secretary of Transportation unless the Secretary determines that (1) the vessel is over five thousand deadweight tons; and (2) the vessel is suitable for use by the United States for national defense or military purposes in time of war or national emergency."

(c) In the second sentence, strike the word "modified" and insert in lieu thereof the word "acquired", and insert after the word "section" the first time it appears, the words "or section 1610 of Public Law 97–35 and documented under the laws of the United States".

(d) Strike subsection (b).

SEC. 102. Section 901(b)(1) of the Merchant Marine Act, 1936, as amended (46 U.S.C. 1241(b)(1)), is amended by substituting the following for the last sentence: "For the purpose of this section, the term 'privately owned United States-flag commercial vessels' shall not be deemed to include any vessel constructed outside the United States that is registered under the United States flag subsequent to the date of enactment of this Act, (1) unless the Secretary of Transportation finds such vessel to be not more than five years of age on the date of registry under the United States

flag, or (2) unless the Secretary of Transportation finds such vessel to be more than five years of age but less than ten years of age on the date of registry under the United States flag, and upon consultation with the Secretary of Defense, determines that the particular vessel is necessary for the security of the national defense, or (3) if otherwise more than five years of age on the date of registry under the United States flag, until such vessel shall have been documented under the laws of the United States for a period of three years.".

SEC. 103. Section 905(c) of the Merchant Marine Act, 1936 (46 U.S.C. 1244(c)) is amended to read as follows:

"(c)(1) The words 'citizen of the United States' shall not include a corporation, partnership, or association unless it meets the requirements of this subsection.

"(2) In the case of a corporation, the president or other chief executive officer and the chairman of the board of directors shall be citizens of the United States and no more of its directors than a minority of the number necessary to constitute a quorum may be noncitizens, and the corporation itself shall be organized under the laws of the United States or of a State, Territory, District, or possession thereof. With respect to a corporation under title VI of this Act, all directors of the corporation shall be citizens of the United States.

"(3) In the case of a corporation, partnership, or association operating a vessel in the foreign commerce of the United States, the controlling interest shall be owned by citizens of the United States. The controlling interest in a corporation shall not be deemed to be owned by citizens of the United States (A) if the title to not less than 25 per centum of the stock thereof is not vested in such citizens free from any trust or fiduciary obligation in favor of any person not a citizen of the United States; or (B) not less than 25 per centum of the voting power in such corporation is not vested in citizens of the United States; or (C) if through any contract or understanding it is so arranged that more than 75 per centum of the voting power may be exercised, directly or indirectly, in behalf of any person who is not a citizen of the United States; or (D) if by any other means whatsoever control of the corporation is conferred upon or permitted to be exercised by any person who is not a citizen of the United States.

"(4) In the case of a corporation, partnership, or association operating a vessel on the Great Lakes, or on bays, sounds, rivers, harbors, or inland lakes of the United States, the amount of interest required to be owned by citizens of the United States shall be not less than 75 per centum. Seventy-five per centum of the interest in a corporation shall not be deemed to be owned by citizens of the United States (A) if

the title to 75 per centum of its stock is not vested in such citizens free from any trust or fiduciary obligation in favor of any person not a citizen of the United States; or (B) if 75 per centum of the voting power in such a corporation is not vested in citizens of the United States; or (C) if, through any contract or understanding, it is so arranged that more than 25 per centum of the voting power in such corporation may be exercised, directly or indirectly, in behalf of any person who is not a citizen of the United States; or (D) if by any other means whatsoever control of any interest in the corporation in excess of 25 per centum is conferred upon or permitted to be exercised by any person who is not a citizen of the United States.".

SEC. 104. Section 9 of the Shipping Act, 1916, (46 U.S.C. 808) is amended as follows:

(a) In the third paragraph, after the word "Transportation," insert the words "for any citizen of the United States".

(b) In the third paragraph, before the words "transfer or place", insert the words "for any person to".

TITLE II

SEC. 201. Section 607 of the Merchant Marine Act, 1936, as amended (46 U.S.C. 1177), is amended as follows:

(a) In subsection (a), strike the words "built in the United States and" in the second sentence.

(b) In paragraph (1) of subsection (f), strike the undesignated paragraph following subparagraph (C).

(c) In paragraph (1) of subsection (k):

(1) Strike subparagraph (A), and renumber subparagraphs "(B)" and "(C)" as "(A)" and "(B)".

(2) Strike the undesignated paragraph following subparagraph (C).

(d) In paragraph (2) of subsection (k), strike subparagraph (A), and renumber subparagraphs "(B)" and "(C)" as "(A)" and "(B)".

SEC. 202. Section 615 of the Merchant Marine Act, 1936, (46 U.S.C. 1185) is amended by striking the proviso clause in the second sentence.

SEC. 203. Section 466 of the Tariff Act of 1930, as amended (19 U.S.C. 1466), is repealed.

SEC. 204. Section 606 of the Merchant Marine Act, 1936, as amended (46 U.S.C. 1176), is amended as follows:

(a) Strike the word "and" at the end of clause (5).

(b) In clause (6), strike the words ", and an operator who receives subsidy with respect to repairs shall perform such repairs within any of the United States or the Commonwealth of Puerto Rico, except in an emergency.", and insert a semicolon and the word "and" at the end.

(c) Insert a clause (7) as follows: "(7) an operator who is authorized to receive subsidy with respect to repairs shall

receive subsidy only for repairs performed in the United States or the Commonwealth of Puerto Rico.".

Senator STEVENS. Our first witness this morning will be Adm. Harold Shear. Admiral, while you are coming up I have to tell you that it is my task to open the Senate this morning and I must leave for a few minutes. I have asked Senator Inouye to proceed with the hearing, and I will return as soon as possible. We do expect other Senators here present soon.

Thank you very much.

Senator INOUYE [presiding]. Please proceed, sir.

STATEMENT OF ADM. HAROLD E. SHEAR, MARITIME ADMINISTRATOR, DEPARTMENT OF TRANSPORTATION, ACCOMPANIED BY RUSSELL STRVKER, AND STUART BREIDBART

Admiral SHEAR. Thank you.

Mr. Chairman, if I may, I would like to proceed with a brief statement. I am accompanied today by two members of my staff, Mr. Russell Strvker and Mr. Stuart Breidbart.

I appreciate the opportunity to appear before you this morning to seek support for the administration's proposed Merchant Marine Act of 1983, also to comment on S. 125, and third, to present the Maritime Administration's request for appropriations authority for fiscal year 1984. I shall address these three subjects in order.

The extensive maritime policy review conducted by the administration during the past year yielded major statements by the Secretary of Transportation in May and in August. Of the proposals put forth in these statements, the proposed Merchant Marine Act of 1983 incorporates five that require legislative action. These include:

Renewal and indefinite extension of authority to permit subsidized operators to construct and acquire vessels outside of the United States and still receive operational differential subsidy.

Second, immediate eligibility for reflagged vessels less than 5 years old, and in some cases 10 years of age, for carriage of Government-impelled cargoes;

Third, an increase from 49 percent to 75 percent in permissible foreign investment in U.S.-flag shipping supported by promotional programs;

Fourth, extension of capital construction funds to foreign-built ships;

And fifth, elimination of the current 50 percent tax on the cost of nonemergency repairs made abroad on U.S.-flag vessels.

Each of these five items needs to be considered on its own merits. First, the build-foreign proposal would give operators, without forfeiting subsidy eligibility, the opportunity to acquire modern, fuel-efficient ships at competitive prices and with assured early delivery. This is critically important for the renewal of the fleet at a time when the U.S./foreign construction cost differential has climbed to some 65 percent, well above the statutory 50-percent CDS limit, and when the unarguable need for strict fiscal austerity stands in the way of CDS renewal.

Without a build-foreign provision, ships simply will not be built in today's environment. I stress that: Without a build-foreign provision, ships simply will not be built in today's environment.

Second, immediate access to preference cargo is important to the bulk ship operator contemplating ship acquisition abroad, and

without such immediate access he is unlikely to go ahead with the construction plans in today's depressed market. This provision is important to our efforts to strengthen the fleet.

Third, the proposed increase in permissible foreign investment in U.S.-flag shipping supported by the promotional programs would serve the obvious purpose of broadening our investment base, thus increasing the prospect of new maritime ventures. With respect to the two questions heard most frequently on this initiative: It would not apply to Jones Act ships; and U.S. citizen control of the affected companies would continue to be required.

Fourth, as to the extension of the capital construction fund to foreign-built ships, this is merely the logical corollary of the build-foreign proposal. It is intended to help promote the expansion and modernization of the U.S.-flag fleet in a period when domestic construction of foreign-trade ships appears precluded. It is important that we provide such assistance to American operators who must compete in a deeply depressed market characterized worldwide by extensive national assistance to flag fleets.

And finally, the elimination of the 50 percent ad valorem duty on nonemergency ship repairs performed abroad would remove a persistent barrier to competitive efficiency in the U.S.-flag ship operations. Foreign operators in international trade are free to plan operations to maximize cargo and revenue, with flexibility to schedule maintenance as necessary.

The U.S.-flag operators who compete in the same international market do not have this freedom when they must schedule maintenance only in one area, with the alternative of paying a heavy ad valorem tax penalty. This measure would eliminate that element of the U.S.-flag operator's competitive disadvantage.

I hope that the Congress will give a favorable reception to these proposals. I should also remind you that they are not isolated. I will not try to cover here all of the initiatives the administration has advanced. However, I must note our strong support for the maritime regulatory reform measure so ably supported by this subcommittee in its recent passage by the Senate.

The administration's affirmation of existing Jones Act and cargo preference laws also bears mention, as does our initiative to eliminate the unnecessary regulation of the shipbuilding and shipboard operations.

I have also been asked to comment on S. 125, which would authorize $200 million in CDS funds for fiscal year 1984 and raise from $12 billion to $15 billion the limit on total ship financing guarantee commitments under title XI.

Briefly stated, assuming it could be used, we believe that such a CDS appropriation, which would add inevitably to the national debt, would not be justified. Relief from the current 50-percent statutory limit on the CDS rate would undoubtedly be necessary before it could be used. With current U.S. merchant ship construction costs two to three times foreign prices, today's CDS rate would have to be about 65 percent, and the proposed $200 million would cover CDS for only about 3 modern liners.

This would be an unnecessarily costly and inefficient way to renew the fleet. Furthermore, subsidies do little to improve the efficiency and competitiveness of U.S. shipyards.

As to the proposed increase in the title XI ceiling to $15 billion, we consider it unnecessary because under current market conditions it will probably be at least 1987 before we reach the limit of current title XI authority. In addition, we are considering measures beyond those already in effect to help us stretch the current authority.

Speaking for the administration, I would like to say that, although we cannot support S. 125 itself, we do support and share its authors' objective of a revived and strengthened merchant marine. It is our sincere hope that we can work together to achieve a mutually acceptable common approach.

I would like now to turn briefly to the third and final subject of this statement, that is the Maritime Administration budget authorization for fiscal year 1984. Our 1984 authorization request calls for the authorization of a total appropriation of some $483 million. This comprises $401 million for operating differential subsidies, $11.5 million for research and development, and $71 million for operations and training activities. Some of the details behind these three elements of our request are as follows:

First, in the area of operating differential subsidies, the Administration continues to meet its obligations under the existing operating differential subsidy contracts. As noted, the appropriation request for operating differential subsidies totals $401 million, to which will be added a carryover estimated at some $38 million, yielding a total of some $439 million to cover outlays, which will include $15 million in payments for prior year operations. As in 1983, the program will support 151 ships, composed of 130 liners and 21 bulk ships.

The Maritime Administration's research and development program works to make the U.S. shipbuilding and ship operating industries more productive and competitive. The 1984 request for this program is $11.5 million, which involves a net decrease of $3.8 million from the fiscal year 1983 budget of $15.3 million. This change reflects the completion of the current phase of the Arctic shipping program, which yields a net decrease of $4.7 million and a partially compensating increase of $900,000 for other work.

The request for operations and training is $71 million, a net decrease of $7.1 million from the full year amount provided in 1983; $32.6 million is requested for maritime education and training. Of this amount, $20 million is requested for the U.S. Merchant Marine Academy at Kings Point.

Increases over the 1983 level include $633,000 to cover increases in Academy operating expenses, $1.7 million for the facilities modernization program, for which there was no appropriation in 1983, and $261,000 for operation and maintenance of the Academy's small training ship.

The $10.6 million is requested for financial assistance to the six State marine schools, which are located in California, Texas, Michigan, New York, Massachusetts, and Maine. This involves a decrease of $7.1 million from the 1983 total, attributable to the nonrecurrence of the 1983 add-on of funds for the repair or replacement of the ship on loan to the Massachusetts Maritime Academy.

The requested funds will provide $600,000 for direct payment to the schools, $2.6 million for student incentive payments, and $7.4

million for the maintenance and repair of school ships. We do not believe it is appropriate for the Federal Government to pay for fuel for these ships.

The $1.7 million is requested for additional training for seafarers, primarily in firefighting and diesel operations; $8 million is sought for the national security support capability program, which includes a $6.9 million for the National Defense Reserve Fleet and $1 million for emergency planning and operations. This account shows a net increase of $600,000 for higher operating costs of the program.

Finally, $30 million is requested for other operations and training expenses. These funds provide for program costs, including most agency personnel and overhead costs, plus direction and administration of several agency activities. A net decrease of some $3 million is attributable to a reduction in personnel and associated operating costs, offset to a degree by operating cost escalation.

This concludes my prepared statement, Mr. Chairman, and I would be glad to answer any questions which you may have.

Senator INOUYE. Thank you very much, Admiral.

In the event our commercial shipyard repair facilities are substantially reduced—and I believe your measure will lead to that—both our international fleet and our Jones Act fleet would be forced to rely on foreign yards for much of their repair work. If the facilities on the west coast were scarce, where would you anticipate that our Jones Act Matson ships would go?

Admiral SHEAR. As I understand, you are assuming a situation where the west coast yards would be scarce, reduced, go out of commission due to lack of work; where would the Jones Act vessels go?

Senator INOUYE. That is right.

Admiral SHEAR. We certainly do not want to see a situation where any of the yards in the mobilization base are so hard-pressed that they go out of business, and clearly there is a considerable amount of Jones Act work, as you are well aware, in the Alaskan-west coast trade and the west coast-Hawaii trade.

Clearly, there must be an adequate shipbuilding base and ship repair base to take care of the requirements of those vessels, and in addition to that, the requirements for Navy repair and construction. And I would not like to see a situation where any west coast yard was forced to go out of business for lack of work.

Senator INOUYE. Do your studies show that the yards will be operating at full force even with the passage of the administration's bill?

Admiral SHEAR. Right now the situation worldwide is very difficult for all shipyards. We are in the midst of the worst shipping slump internationally in 50 years, and it is being felt here as well as in every other maritime nation around the world.

The Department of Defense is conducting right now, an overall review of the mobilization ship building and ship repair base which will be required in the future. We have such a base at present. We know what those yards and figures are. I certainly would not want to see any significant number of those yards put out of business.

Senator INOUYE. And even though this study has not been completed the study that you just referred to you are urging this Con-

gress to pass the administration's measure, not knowing what the outcome will be? Are you willing to take that gamble, Admiral?

Admiral SHEAR. What we are requesting the Congress to pass is a program which is going to be extremely important to keep our operating fleet competitive. That is our principal endeavor both with regard to authority to construct overseas and authority to have a more efficient operating situation with regard to use of capital construction funds, which are not being used in the United States at the present time, as well as relief from some of the restrictions on operations of our vessels in comparison to their foreign competition.

And I would certainly believe that the impact on our own yards in this endeavor is going to be minimal. We have a lot going on for our shipyards today. We have been pushing a number of other things, but this is not to say there is adequate work. There is not adequate work here, nor is there adequate work around the world.

Senator INOUYE. Your proposal will effectively do away with the construction differential subsidy program. This construction differential subsidy program was enacted into law by the Congress of the United States. Why does not the administration have the courage to come forth and say, "We want this provision repealed," instead of going around the edges?

Does not your proposal effectively kill the CDS program?

Admiral SHEAR. That is correct.

Senator INOUYE. Why do you not come out and just say, "let us repeal it"?

Admiral SHEAR. This proposal essentially does away with the CDS program, as it has done for the past 2 years. Now, if we had a CDS program today, Senator Inouye, in all likelihood there would be very few ships built in the United States. The cost differential is so great at present with regard to the foreign yards that CDS itself would not make up the difference.

And the facts are that we are getting a considerable number of efficient, modern, competitive ships built overseas, which are vitally important for the overall rejuvenation and updating of our current fleet, which is terribly outdated, inexpensive and inefficient.

Senator INOUYE. Are these foreign shipyards subsidized by their countries?

Admiral SHEAR. Yes, they certainly are, and virtually every foreign shipyard is subsidized in one form or another throughout the world at the present time.

Senator INOUYE. In fact, they are subsidized to a greater extent than our shipyards.

Admiral SHEAR. In many cases that is correct, sir.

Senator INOUYE. In every case, Korea, Japan, Germany; is that not correct?

Admiral SHEAR. Yes, they are all heavily subsidized.

Senator INOUYE. One of the administration's proposals would permit a corporation operating U.S.-flag vessels to be 75 percent foreign-owned. This of course means foreign interests would have operational control. Does the fact that foreign interests would have operational control raise any national security problems, such as military sealift availability in times of national emergency, defense features aboard the vessels?

Admiral SHEAR. I do not think that is a serious problem. The officers of these companies would be Americans. They would be American-documented vessels. They could not be sold foreign without the authority of the Coast Guard and the Maritime Administration. They would be documented under Coast Guard rules and regulations.

They would certainly be much more solidly controlled vessels than foreign-flag American-owned vessels, and I do not think there would be any significant problem with regard to the availability of such vessels in time of emergency.

Senator INOUYE. Are you suggesting that in a shipping corporation which is 75 percent foreign-owned, that the foreign owners would have no influence over the officers of that corporation?

Admiral SHEAR. Yes, they would have influence, without question. But as far as the situation in an emergency with the United States requiring use of those ships, I do not think it would be a significant problem.

Senator INOUYE. And you think that in a time of national emergency, when these ships are supposed to be available to us, that they will effectively be under our control?

Admiral SHEAR. I do indeed. And I might just expand, Senator Inouye, on why we think this is important. This is a capital-intensive business that we are in, and the purpose here is to encourage capital, encourage foreign capital to assist in the expansion and modernization of the American-flag fleet, both with regard to modern vessels, increased number of vessels, and increased American crews and seamen to man these vessels.

Senator INOUYE. Well, I just pray that you are correct, sir. Because in a similar situation—the Yom Kippur War—as you are well aware, when it became apparent that we were in need of much cargo space to carry military materiel to Israel, we called upon American citizens owning ships under foreign registry to come to the aid of our country. And I am certain you know that not a single company responded.

Admiral SHEAR. I think this is quite a different situation, if I may, Senator Inouye. These are U.S.-flag vessels with U.S. crews, U.S. masters.

Senator INOUYE. And 75 percent owned by foreigners.

Is there any restriction in your bill as to what foreigners may control these corporations?

Admiral SHEAR. It is not spelled out, sir.

Senator INOUYE. Conceivably, it could be Polish?

Admiral SHEAR. I think that is a remote possibility.

Senator INOUYE. Who carries our mail across the Atlantic now?

Admiral SHEAR. There are a number of flags that do this.

Senator INOUYE. Who has the contracts with the Government of the United States?

Admiral SHEAR. I will provide that for the record.

Senator INOUYE. Does the Polish steamship company have any?

Admiral SHEAR. They have in the past, yes. That contract is currently active.

Senator INOUYE. And Poland is a foreign country.

Admiral SHEAR. Yes, they are.

Senator INOUYE. And they carry our mail to NATO.

Admiral SHEAR. Yes, they do. In certain circumstances they carry mail to NATO.

Senator INOUYE. What happens in the case of an emergency. Suppose we got into a little fight with the Warsaw Pact countries? I ask this in all seriousness, sir.

Admiral SHEAR. I understand. It could possibly be a difficult situation with a Polish ship in the high seas with U.S. mail. I must admit, it could be a difficult situation.

Senator INOUYE. A difficult situation. I have many, many other questions I would like to submit to you, sir, for your response. I also have questions that have been submitted by Senator Mitchell,[1] who has asked that you study these questions and respond to them.

I am certain that the chairman of the committee has many questions to ask you. Senator Trible.

Senator TRIBLE. Admiral, it is a great pleasure to have you here today, and I regret that I was delayed this morning and was not here to welcome you as you arrived. Admiral, I think that my reaction to your presentation today on behalf of the administration can be best characterized as one of disappointment.

The proposals of the administration provide nothing for shipbuilding, nothing for shipyards, nothing to ensure thousands of jobs to Americans who desperately need jobs, despite the President's promises to guarantee a shipbuilding base, and that troubles me, because as you know, I am one of the President's staunchest supporters in this body, and with the exception of the expanded foreign ownership, I can find nothing in the five-point program before us today which I can support.

Yesterday's solutions to our shipbuilding dilemma were surely not perfect, but what is presented to us today, in my judgment, is not a solution but indeed will only aggravate the problems that we have before us. Now, you talked about DOD doing studies about our shipyard base. Those studies have been going on for decades, and we know precisely where our problems lie.

There are currently 27 shipyards that comprise the so-called shipbuilding mobilization base, shipyards capable of building new ships. Thirteen of those shipyards rely primarily on naval work. A 600-ship Navy may well provide additional naval shipbuilding opportunities to 1 or 2 yards. That leaves approximately 12 to 13 yards that rely primarily on commercial work.

Your program would be the death knell to those yards, to those tens of thousands of workers depending on commercial shipbuilding opportunities. What hope do you offer to those people?

Admiral SHEAR. Let me respond to your overall comments, if I may, Senator Trible. First of all, you say the administration has done nothing for the shipbuilding base of activities in the United States, and I must beg to differ with you on that. There are currently nearly 150 or some 140 odd vessels under construction in American yards today, naval, naval auxiliary, Coast Guard, Navy conversions.

Senator TRIBLE. I do not think you can take credit for that, Admiral, in all fairness. That is not a hat that you wear. I shaped the naval shipbuilding program when I was a Member of the House of

[1] See pp. 129–136.

Representatives. I led the charge. I am fully aware of the shipbuilding program of the U.S. Navy, but that is not what we are talking about today. That is not what we are talking about today.

Now, I will give the President full credit for recognizing that we need to rebuild our Navy, and he is doing a grand job of that, and we are going to be able to project power and presence throughout this world, as we have not been able to do in many years.

But let us focus on the commercial side of the equation.

Admiral SHEAR. I submit that I am here representing the administration, Senator Trible, and the administration has in fact been pushing all aspects of the combatant ship construction and the auxiliary ship construction. But to put that aside for the moment, the administration has also increased annual title XI money from some $600 million to $900 million. It is a reflection, however, it is a reflection on the terrible slump in the industry that I am not able to utilize that money at the present time.

I have gone out to the industry on occasion after occasion, pointing out that there is title XI guarantee mortgage money available for a variety of commercial ship construction programs, and the response is very, very weak. The business simply is not there.

There are vessels of all types laid up throughout the United States at the present time. There is title XI money available in considerable quantities for any viable, any financially viable new construction program that is submitted.

Senator TRIBLE. Now, what do you expect the worldwide shipbuilding environment will be in the days ahead? How will that impact on shipbuilding in the United States?

Admiral SHEAR. Well, the economy is commencing to turn around at the present time. The maritime business, shipbuilding and ship operating, traditionally lags the recovery situation. It is probably going to take a year or two for the overall economy to really recover vigorously, and with the shipbuilding and ship operating industry lagging that, I think we are probably talking about the 1985 time frame before there is a significant vigorous improvement, and I think anything less than that would be very optimistic.

Senator TRIBLE. And it is your view that the proposals before us and the other programs of this administration, aside from naval shipbuilding, will provide adequate shipbuilding and ship repair opportunities for those 12 to 14 yards that will not have naval work and who will need work to stay in business?

Admiral SHEAR. I would like to find additional work for those yards right now. There is not a day that goes by that I am not working on some effort to find work for American yards. However, I must point out that not only do we have responsibility to our shipyards, but we also have responsibility to an effective, efficient, expanding fleet, which has been going downhill for 30 odd years.

We are building right now a considerable number of such vessels overseas as the only possible way we can get them. Those ships would not be built in the U.S. anyway and this is a misnomer and a misargument which is frequently utilized, that we are losing jobs by building those ships overseas. That is simply not the case.

If we did not have the opportunity to build those ships overseas at extremely competitive prices and extremely competitive financing, those ships simply would not be built anywhere.

Senator TRIBLE. Well, I recognize the need to expand our merchant marine, and I recognize the appeal of arguments and policies that would find ships overseas, either ships in being or take advantage of shipbuilding opportunities overseas.

But in spite of the apparent logic of those kinds of policies, they are resulting inevitably in the decline of America's shipbuilding industry, and will result inevitably in the closure of some important yards in this country. Not in Virginia. I have no parochial interest here at stake. My shipyard is going to be busy. My shipyards are building Navy ships and repairing Navy ships, and they are busy, and they will be busy for a long time.

But there are 12 or 14 shipyards in this country that simply have no hope, as I see it. What do we tell those shipyards? Just to pack it in and invest their money in other areas? And I am not quarreling with your objective to beef up our merchant marine.

And I recognize the appeal of going outside of the United States and all, but are you not writing off those 12 or 14 shipyards? Are you saying we do not need them? And maybe we do not. But if that is indeed the decision of this administration, I think you ought to come forward with that and specifically say it.

Admiral SHEAR. I am not writing off any shipyard, Senator Trible. There are 119 yards in our mobilization base, and you mentioned the 27, the larger of those yards. I am thoroughly familiar with those, and I am quite familiar with the shipyards on all of our coasts, and I recognize that we do not want to lose any single one if we can possibly help it.

CDS itself is not going to save any of those yards. We are doing everything we can at the present time. As I mentioned, we have large amounts of title XI money going unutilized at the present time. There are a number of other things that we are trying to do.

We are trying to reduce the regulatory overhead which has been such a burden to the shipyards. We have a vigorous effort ongoing to cut that down, to reduce costs for American builders at the present time. We have a number of R&D programs which have been financed by the Maritime Administration in conjunction with private industry aimed at picking up some of the efficiencies of such yards as the Japanese.

And that has been a quite successful program, and hopefully we will continue to do so, and I can name several yards that have improved their efficiency because of it.

We are increasing our ready reserve fleet—this is the most up-to-date portion of the Reserve Fleet. This is not going to be a major incentive, but we are increasing the Ready Reserve Fleet from some 30-odd vessels to 70-odd vessels, and each one of those vessels has to spend $1 million to $2 million in a shipyard in preparation for updating and going into the Reserve Fleet itself.

That is a modest amount of work, but that work is being put out to competitive bids and spread around wherever possible to the most needy shipyards. Some of those have just taken place here in recent weeks, and the bidding for that type of work is most competitive and most impressive with regard to the returns we are getting.

None of these are big programs, but we are not going to get any program, any big programs with the overall state of the slump in the maritime business at the present time in the commercial field.

Senator TRIBLE. Well, I recognize the difficulty of your task, and I do not propose to minimize that. I have worked with the maritime industry, and I know that there are some competing interests at stake, and it is hard to reconcile those interests.

At the same time, I am deeply troubled about the future of our shipbuilding industry, and it seems to me that there can be some innovative ways of breathing life into our shipbuilding base. I think it is essential to our national interest that we maintain those yards, yards that have been built at great public expense in many instances as well as private.

I think there is a national security implication that is obvious, and I also think it is important to our economic vigor, as well as our military might, and I would hope that perhaps this administration would focus some more time and energy and talent on putting forward a strategy that might breath some life into our shipbuilding industry.

And I have a proposal along with Senator Long, as you know, which would set aside a portion of American bulk cargo. It would also require that the maritime industry cut costs, and that may well be the only way that we can protect our shipbuilding base if that is a national requirement, and if you do not believe it, I think we ought to debate it and resolve it.

And that is what troubles me, because I think the administration, perhaps focusing on other kinds of maritime problems, is refusing to address the reality that a large portion of our shipbuilding base will simply fall as a result of the policies being implemented by this administration, and perhaps that is the way we ought to go.

I do not subscribe to that view, but perhaps that ought to be our course of action. Maybe we do not need all those shipyards, but it seems to me that we ought to discuss that, and we ought to debate it vigorously, and we ought to then make a more intelligent decision about the future.

I have taken too much time, and I will yield back the balance of my 5 minutes that remains, and I thank the chairman and my colleague from Hawaii for their indulgence, and again, I applaud your efforts. I may not greet your proposals enthusiastically, but I understand the difficulty of your task. I would hope that we could work together in the days ahead and perhaps revive the entire industry.

Admiral SHEAR. Senator Trible, I would be more than happy to work with you and other members of this committee to find additional ways to really give a boost to our ailing shipbuilding and ship repair industry.

Senator STEVENS. Senator Inouye, do you have any more questions?

Senator INOUYE. Yes. Just for clarification, have you submitted this Administration proposal to the MarAd/U.S. Navy study panel for its views?

Admiral SHEAR. We have been working very closely with the Navy, Department of Defense with regard to the requirements for

numbers of vessels for emergency wartime situations, and also with regard to the review of the shipyard mobilization base requirements.

Senator INOUYE. No, my question is, has this panel reviewed the provisions of the administration's bill?

Admiral SHEAR. As far as the administration's bill is concerned, the Department of Defense has been represented on all of the interagency reviews of maritime programs. They have actually had a representative on that interagency group as well as Department of Transportation, Justice, State, and a number of others.

Senator INOUYE. So you are telling us that the Navy approves and supports this measure?

Admiral SHEAR. There are clearly some areas where the Navy specifically may not approve or support a particular item, but this has been thoroughly reviewed, been approved by the interagency group, and is in fact the administration's position.

Senator INOUYE. There is another organization, I believe, called the National Maritime Industry Advisory Board.

Admiral SHEAR. Yes.

Senator INOUYE. Have you submitted this measure to this board for its review?

Admiral SHEAR. This has not been specifically submitted to that committee for its review.

Senator INOUYE. Has this board ever met?

Admiral SHEAR. Yes, it has met twice, and it is going to meet again on May 3.

Senator INOUYE. Does not this measure affect the maritime industry?

Admiral SHEAR. Yes, it does.

Senator INOUYE. Why did you not submit it to them for their views?

Admiral SHEAR. That particular committee is a cross-section of all aspects of the industry. It is a committee for review and advice. It was not particularly appropriate, I do not think, to submit something that has been thoroughly reviewed within the administration prior to its coming forward.

Senator INOUYE. So you have no idea as to the position taken by members of this advisory board?

Admiral SHEAR. It has not been submitted to the advisory board for comment.

Senator INOUYE. Thank you, sir.

Senator STEVENS. Admiral, how much money is in the CCF funds now?

Admiral SHEAR. CCF funds at present are something over $700 million, sir.

Senator STEVENS. Do you have any indication of how they have been spent in the past 5 years? Could we have a report on that?

Admiral SHEAR. I can provide that for the record. There are some 150 organizations, companies with CCF funds, CCF programs, and they go from essentially $100 million up to over $200 million, moneys in the fund at the present time.

Senator STEVENS. Do you maintain a schedule of vessels that you anticipate will be replaced in the next 5 years?

Admiral SHEAR. Yes, we do. Those that reach their replacement age under current ODS contracts.

Senator Stevens. Could you give the committee a copy of that also, please?

Admiral SHEAR. Yes, I will. That is not in any sense, however, a complete picture, because there are a number of operators today who badly need to replace aging and inefficient and expensive tonnage. Whether or not there is a required replacement, a number of those ships need replacement, and there are several operators who are very anxious to do that in the immediate future.

Senator STEVENS. You can give us a second list if you would for those that you would believe there may be a decision made by management to replace because of efficiency or other reasons.

Admiral SHEAR. I can include that, sir.

[The statement follows:]

STATEMENT OF ADM. HAROLD E. SHEAR, ADMINISTRATOR, MARITIME ADMINISTRATION, DEPARTMENT OF TRANSPORTATION

Mr. Chairman and members of the Committee, I appreciate the opportunity to appear before you this morning to seek support for the Administration's proposed Merchant Marine Act of 1983, to comment on S. 125, and to present the Maritime Administration (MARAD) request for appropriations authority for fiscal year 1984. I shall address these three subjects in order.

The extensive maritime policy review conducted by the Administration during the past year yielded major statements by the Secretary of Transportation in May and in August. Of the proposals put forth in those statements, the proposed Merchant Marine Act of 1983 incorporates five that require legislative action. These include: (1) renewal and indefinite extension of authority to permit subsidized operators to construct and acquire vessels outside of the United States and still receive Operating-differential Subsidy (ODS); (2) immediate eligibility for reflagged vessels less than five years old, and in some cases ten years old, for the carriage of Government-impelled cargo; (3) an increase from 49 percent to 75 percent in permissible foreign investment in U.S.-flag shipping supported by promotional programs; (4) extension of capital construction funds (CCF) to foreign-built ships; and (5) elimination of the current 50 percent tax on the cost of non-emergency repairs made abroad on U.S.-flag vessels.

Each of these five items needs to be considered on its own merits. The build-foreign proposal would give operators, without forfeiting subsidy eligibility, the opportunity to acquire modern, fuel-efficient ships at competitive prices and with assured early delivery. This is critically important for the renewal of the fleet at a time when the U.S./foreign construction cost differential has climbed to 65 percent, well above the statutory 50 percent CDS limit, and when the unarguable need for strict fiscal austerity stands in the way of CDS renewal. Without a build-foreign provision, ships simply will not be built in today's environment.

Immediate access to preference cargo is important to the bulk ship operator contemplating ship acquisition abroad. Without such immediate access he is unlikely to go ahead with construction plans in today's depressed market. This provision is important to our efforts to strengthen the fleet.

The proposed increase in permisible foreign investment in U.S.-flag shipping supported by the promotional programs would serve the obvious purpose of broadening our investment base, thus increasing the prospect of new maritime venture. With respect to the two questions heard most frequently on this initiative: (a) it would not apply to Jones Act ships; and (b) U.S. citizen control of the affected companies would continue to be required.

As to the extension of the CCF'S to foreign built ships, this is merely the logical corollary of the build-foreign proposal; it is intended to help promote the expansion and modernization of the U.S.-flag fleet in a period when domestic construction of foreign-trade ships appears precluded. It is important that we provide such assistance to American operators who must compete in a deeply depressed market characterized worldwide by extensive national assistance to flag fleets.

Finally, the elimination of the 50 percent ad valorem duty on non-emergency ship repairs performed abroad would remove a persistent barrier to competitive efficiency in U.S.-flag ship operations. Foreign operators in international trade are free to plan operations to maximize cargo and revenue, with flexibility to schedule maintenance as necessary. The U.S.-flag operators who compete in the same international market do not have this freedom when they must schedule maintenance only in one area, with the alternative of paying a heavy ad valorem tax penalty. This measure would eliminate that element of the U.S.-flag operator's competitive disadvantage.

I hope that the Congress will give a favorable reception to these proposals. I should also remind you that they are not isolated. I won't try to cover here all of the initiatives the Administration has advanced. However, I must note our strong support for the maritime regulatory reform measure so ably supported by this Subcommittee in its recent passage by the Senate. The Administration's affirmation of existing Jones Act and cargo preference laws also bears mention, as does our initiative to eliminate the unnecessary regulation of the shipbuilding and shipboard operations.

I have also been asked to comment on S. 125, which would authorize $200 million in CDS funds for fiscal year 1984 and raise from $12 billion to $15 billion the limit on total ship financing guarantee commitments under Title XI.

Briefly stated, assuming it could be used, we believe that such a CDS appropriation, which would add inevitaby to the national debt, would not be justified. Relief from the current 50 percent statutory limit on the CDS rate would undoubtedly be necessary before it could be used. With current U.S. merchant ship construction costs two to three times foreign prices, today's CDS rate would have to be about 65 percent, and the proposed $200 million would cover CDS for only three modern liners. This would be an unnecessarily costly and inefficient way to renew the fleet. Furthermore, subsidies do little to improve the efficiency and competitiveness of U.S. shipyards.

As to the proposed increases in the Title XI ceiling to $15 billion, we consider it unnecessary because under current market conditions it will probably be at least 1987 before we reach the limit of current Title XI authority. In addition, we are considering measures beyond those already in effect to help us stretch the current authority.

Speaking for the Administration, I would like to say that although we cannot support S. 125 itself, we do support and share its authors' objective of a revived and strengthened merchant marine. It is our sincere hope that we can work together to achieve a mutually acceptable common approach.

I would like to turn now to the third and final subject to this statement, the Marine Administration budget authorization for fiscal year 1984. Our 1984 authorization request, calls for the authorization of a total appropriation of $483,807,000. This comprises $401,294,000 for Operating-differential Subsidies, $11,500,000 for Research and Development, and $71,013,000 for Operations and Training activities. Some of the details behind these three elements of our request are as follows:

OPERATING-DIFFERENTIAL SUBSIDIES

The Administration continues to meet its obligations under existing Operating-differential Subsidy contracts. As noted, the appropriation request for Operating-differential Subsidies totals $401,294,000, to which will be added a carryover estimated at $38,416,000, yielding a total of $439,710,000 to cover outlays, which will include $15,000,000 in payments for prior year operations. As in 1983, the program will support 151 ships, 130 liners and 21 bulk ships.

RESEARCH AND DEVELOPMENT

The Marine Administration's Research and Development program works to make the U.S. shipbuilding and ship operating industries more productive and competitive. The 1984 request for this program is $11,500,00, which involves a net decrease of $3,800,000 from the fiscal year 1983 budget of $15,300,000. The change reflects the completion of the current phase of the Arctic shipping program, which yields a decrease of $4,700,000, and a partially compensating increase of $900,000.

OPERATIONS AND TRAINING

The request for Operations and Training is $7,013,000, a net decrease of $7,100,000 from the full year amount provided in 1983.

$32,655,000 is requested for Maritime Education and Training. Of this amount, $20,266,000 is requested for the United States Merchant Marine Academy at Kings

Point, New York. Increases over the 1983 total include $633,000 to cover increases in Academy operating expenses, $1,700,000 for the facilities modernization program, for which there was no appropriation in 1983, and $261,000 for operation and maintenance of the Academy's small training ship.

$10,668,000 is requested for financial assistance to the six State marine schools, which are located in California, Texas, Michigan, New York, Massachusetts, and Maine. This involves a decrease of $7,100,000 from the 1983 total, attributable to the nonrecurrence of the 1983 add-on of funds for the repair or replacement of the ship on loan to the Massachusetts Maritime Academy. The requested funds will provide $600,000 for direct payments to the schools, $2,600,000 for student incentive payments, and $7,468,000 for the maintenance and repair of schoolships. We do not believe it is appropriate for the Federal Government to pay for fuel for these ships.

$1,721,000 is requested for additional training for seafarers, primarily in firefighting and diesel operations.

$8,048,000 is sought for the National Security Support Capability program, which includes $6,999,000 for the National Defense Reserve Fleet and $1,049,000 for Emergency Planning/Operations. This account shows a net increase of $619,000 for higher operating costs of the program.

Finally, $30,310,000 is requested for other Operations and Training expenses. These funds provide for program costs, including most agency personnel and overhead costs, plus direction and administration of several agency activities. A net decrease of $3,222,000 is attributable to a reduction in personnel and associated operating costs offset to a degree by operating cost escalation.

This concludes my prepared statement, Mr. Chairman, and I will be glad to answer the Committee's question.

Senator Stevens I appreciate that very much. Again, I apologize to you and your colleagues for having to leave during your testimony. I have read it, and I appreciate it very much. Thank you very much, gentlemen.

Admiral Holloway and Mr. Albert May of the Council of American Flag Ship Operators.

I see my colleagues are departing temporarily. They will be back, I am sure. I want to remind everybody that we are going to try to hold to the 5-minute concept on everybody, including members, during this hearing if we can.

Admiral, we are pleased to have you here, and Mr. May. We hope you will be able to summarize your testimony for us.

STATEMENT OF ADM. JAMES L. HOLLOWAY III, U.S. NAVY (RETIRED), PRESIDENT, COUNCIL OF AMERICAN FLAGSHIP OWNERS, ACCOMPANIED BY ALBERT E. MAY, EXECUTIVE VICE PRESIDENT

Admiral HOLLOWAY. Thank you, Mr. Chairman.

I do have a statement that I would like to submit for the record, and I have a brief oral summary, if I may proceed.

Senator STEVENS. All statements presented today will be printed in the record in full, and we do urge that you summarize them so that we might get to the questions. As a matter of fact, we have had all of the testimony in advance. We do appreciate that.

Admiral HOLLOWAY. Mr. Chairman, we are pleased to be here today to testify on behalf of MarAd authorization appropriations for fiscal year 1984 and S. 125 and the legislation proposed by the administration to implement five elements of President Reagan's maritime promotional program.

All of these bills have as their objective the strengthening of the U.S.-flag merchant marine, to arrest its progressive decline, and to restore it to the position of economic viability which will enable it to carry out its functions as an instrument of national policy.

In their 1984 posture statement, the Joint Chiefs of Staff make three important points concerning the essentiality of the merchant marine's vital role in our national strategy. First, they said successful military response to global threats to vital American security interests depends upon having enough sea lift to carry 90 to 95 percent of the total cargo of deploying U.S. forces and their sustaining support.

Second, the Chiefs said, ships from the U.S. merchant marine represent the single largest domestic source of the sea lift, and the Nation relies on our merchant marine as a strategic resource.

And third, the JCS pointed out that at this time, when the military is putting increased emphasis on sea lift, our available shipping assets continue to decline, down from 2,400 to 440 general cargo ships today. That decline has occurred in the last 30 years.

This 440 total that exists today consists of privately owned U.S.-flag ships and retired vessels laid up in the national defense reserve fleet. Just recently—I think it was on March 3—Admiral Shear informed the Joint Chiefs of Staff that he has serious reservations as to the usefulness of any ships in the reserve fleet constructed prior to 1950.

I would like to note that 140 of the 180 ships in the national defense reserve fleet are World War II ships with construction dates of 1945 or prior. Clearly, we are facing a growing crisis in our strategic sea lift capacity. The total number of U.S.-flag vessels suitable for military sea lift purposes could drop below the 350 ships required for deployment of the Rapid Deployment Force to the Indian Ocean region.

The critical element, we believe, for resolving this strategic deficiency is the U.S. merchant marine. I say that because, first, the U.S. merchant marine provides virtually all of the operating ships in the sea lift fleet. Second, retired U.S. merchant marine ships are the only input to the reserve fleet. They increase its size and they improve its quality. And third, the crews for the reserve fleet in mobilization are drawn from the pool of civilian mariners that is generated by the U.S. merchant marine. Therefore, it is very much in the national interest to develop a maritime program that will restore the merchant marine to the position of economic strength and military capacity adequate to fulfill the industrial and defense requirements of the United States.

The main thrust of such a program must be, first, regulatory reform, second, increased cargoes, and third, fleet modernization. Regulatory reform would be accomplished through legislation such as the Ocean Shipping Act of 1983, S. 47, which recently was enacted by the Senate.

Increased cargoes could result from regulatory reform—and I believe they will—meticulous adherence to existing cargo reservation laws, but very importantly, I think we need an increase in bilateral shipping arrangements, such as those in effect today with Argentina, Brazil, and China.

And finally, fleet modernization requires a ship replacement program, and this is clearly one of the thorniest issues facing us. The two alternatives are construction differential subsidy or the authority for subsidized operators to build foreign.

Of the proposed administration legislation, four of the proposals relate directly to foreign building and repair of vessels for U.S.-flag operators. CASO supports all of these. CASO has no position on the remaining administration proposal, that is, increasing the percentage of foreign ownership authorized in U.S. ship operating companies. It is still under formulation.

With respect to S. 125, which would authorize $200 million for CDS for 1984, CASO is supportive, but with some reservations. U.S.-flag operators must have parity as to capital costs, modern technology—and by that I mean such things as low-speed diesels—and delivery time. To achieve cost parity it would be necessary to amend S. 125 to eliminate the current 50-percent ceiling on the CDS payments and replace it with an authorization for MarAd to pay the actual differential.

In addition, the buy-American requirements must be amended so that the most advanced technology—and again, I refer to such things as low-speed diesel engines—can be acquired overseas if this technology is not available from U.S. sources.

And finally, if S. 125 is to serve as the alternative to build-foreign, the amount of CDS money would have to be increased substantially above $200 million. The cost of large new liner vessels in the United States is currently running at about $90 million apiece. This is approximately three times the foreign cost. Thus $200 million in CDS funds would be enough for only 3 or perhaps 4 ships, and to obtain the economies of series production, our operators are increasingly contracting for a sizable number of vessels in a single flight, recently 6 and again on another occasion even 14.

In order to obtain these efficiencies in acquisition and to reduce the operator's costs, it is essential that the ships, engines, and auxiliary equipment be standard ship installations constructed in a single shipyard.

If authorization of CDS is to benefit the U.S. the merchant marine or the U.S. shipbuilding industry, some way must be found by the Congress to insure that the administration will spend these authorized funds.

Mr. Chairman, this completes my oral statement. Mr. May and I are ready to answer your questions.

Senator Stevens: Thank you very much.

We have had this 2-year period of the temporary authorization to build foreign. How many vessels have been built under that program?

Mr. MAY. We would have to answer that for the record, sir. A number have been ordered. I do not believe that any have yet been actually delivered, but a number are on order, and at least three of our members are actively negotiating for other contracts.

Senator STEVENS. How long do you think it will be before we have a pattern to see what the differential was in the construction estimated between the foreign and the domestic shipyards?

Admiral HOLLOWAY. We have very recent figures, Mr. Chairman. One of our member companies, Lykes Brothers Steamship Co., did ask for bids from both domestic and foreign builders. Their position was that for the same ship built foreign, and this was in a Far East

shipyard, the cost was $33 million. The best bid from a domestic shipyard was $90 million.

Senator STEVENS. We have had some indication that some who have received the operating differential subsidy want to terminate that. I am sure you are familiar with the dispute that is going on there.

What would be the effect in future years if that happens, as far as this group of vessels is concerned? Primarily, I have heard it in regard to the tankers, of course. Would that have a budgetary impact in the future, do you think?

Admiral HOLLOWAY. If operating differential subsidy were to be terminated, then there would be no restriction on U.S.-flag operators acquiring their ships abroad. As long as the differential exists in the 3 to 1 cost, in delivery time—ships acquired overseas are delivered much more promptly than those constructed domestically—and in technology—at the present time we are not able to acquire ships with the very highly efficient, low-speed diesel engines in the United States—plus the fact that the financing tends to be better overseas, then I just cannot believe that there would be any building in this country, given that choice, for economic reasons.

Senator STEVENS. We have had the capital construction funds accumulate. You just heard the testimony of how much is accumulated now. What do you think would be the result if we tried to see what we could do to take all taxes out of the construction of domestic vessels, so that there would be an opportunity to view the costs of foreign-built vessels and ours?

Has anyone ever tracked through the taxes that are involved in the various components of domestic-built vessels?

Admiral HOLLOWAY. Let me ask Mr. May to answer that, Mr. Chairman.

Mr. MAY. I do not know of anyone having tracked the taxes recently, sir. I do know that, as a result of an inquiry, one of the companies did track in its finance office the effect of interest-free loans to the companies to build ships in the United States, a 20-year loan with no interest, payable on a straight-line basis. And the decision was, even with such a long-term, interest-free loan, it would not offset the differential between building here and abroad.

Senator STEVENS. Thank you very much.

Senator Inouye?

Senator INOUYE. Thank you.

Admiral, if an amendment was made to S. 125 to raise the subsidy cap from 50 to 62 percent, would that meet your reservations?

Admiral HOLLOWAY. Senator, I do not believe it would completely. The cost of ships is a transient thing. If the 62 percent did not represent the true differential, I believe that the business pressures would cause the operator to lean toward not paying the difference, when dealing with capital investments of $100 million.

In my view what is necessary is to amend S. 125 to state that the Maritime Administration would pay the differential between foreign building costs and domestic costs, and also to permit buy-foreign in those areas where U.S. technology is not available.

Senator INOUYE. Would you support the build-foreign provision whether or not it is accompanied by an authorization to use the capital construction funds for that purpose?

Admiral HOLLOWAY. Senator, CASO's position is that we favor both, but the two are not coupled. We would approach them individually.

Senator INOUYE. So it makes no difference? You would support build-foreign even if the CCF is not authorized?

Admiral HOLLOWAY. Yes, sir, we would.

Senator INOUYE. Are you concerned about the provision raising the ownership from 49 percent to 75 percent?

Admiral HOLLOWAY. Senator, there is concern in our CASO membership. But because I represent an association, and our principals have not yet established or agreed to a position on that, I hesitate as a representative of CASO to respond.

Senator INOUYE. If you could put your hat back on as Chairman of the Joint Chiefs, would you be comfortable with an American fleet owned by foreigns?

Admiral HOLLOWAY. Senator, I would be much more comfortable if I were assured that the controlling interest in that fleet were held by American citizens.

Senator INOUYE. Is it inconceivable that oftentimes we can see emergencies approaching, and if that were the case these foreign owners may divert their ships elsewhere? They can always put it under another registry.

Admiral HOLLOWAY. I would have to provide an answer for the record on that Senator, because I think that there are some legal restrictions that go along with American-registered ships. It is a very good point, and I would be pleased to investigate, provide an answer for the record.

Senator INOUYE. Admiral, I have certain other questions I would like to submit to you for your response.

Thank you very much.

Senator STEVENS. Senator Trible?

Senator TRIBLE. I have no questions for these distinguished witnesses, Mr. Chairman. I welcome them here today.

Senator STEVENS. Thank you very much.

We may have some technical questions to submit to you. I would like to pursue the question with you and with others as to what we would have to do to squeeze out of the ship construction process any tax revenues for any American source and see what would happen then as compared to the construction costs.

I thank you very much.

Admiral HOLLOWAY. Thank you, Mr. Chairman.

[The statement follows:]

STATEMENT OF ADMIRAL JAMES L. HOLLOWAY III, U.S.N. (RETIRED), PRESIDENT, COUNCIL OF AMERICAN-FLAG SHIP OPERATORS

Mr. Chairman and members of the Committee I am Admiral James L. Holloway III, U.S. Navy (Retired), President of the Council of American-Flag Ship Operators (CASO). Accompanying me is Albert E. May, Executive Vice President and General Counsel of CASO.

We appreciate the opportunity to appear here today to present CASO's views on the Maritime Administration Appropriations Authority request for fiscal year 1984.

CASO represents the majority of U.S. flag liner companies serving the foreign commerce of the United States. Our member companies own and operate a modern and diversified fleet of breakbulk, barge-carrying, container, and roll on-roll off vessels. All of these ships are available under varioius programs for use by the United States during times of military emergency.

This function of the merchant marine in providing military sealift has taken on a sharply increased level of importance in the evolving strategy of the United States, and is receiving special emphasis in our defense planning. Sealift is absolutely essential to the success of our military strategy and to the execution of our military contingency plans. There is no plan for any major overseas military operation, whether it be general war involving the Soviet Union, or a continency operation in some remote corner of the Globe, that does not involve the use of the seas for the injection of our military forces and the sustaining of American presence in the area.

In their military posture statement for fiscal year 1984, the Joint Chiefs of Staff said: "Successful reponse to global contingencies depends upon sufficient mobility assets to project combat forces rapidly and sustain them in the theater as long as necessary to meet U.S. objectives. In general, airlift will transport deploying forces during the early days of a crisis until sealift begins to arrive. These movements will include personnel and equipment to use prepositioned stock. As the crisis progresses, sealift will provide the vital sustaining power for deployed forces, and will ultimately account for 90 to 95 percent of the total cargo delivered over an extended period."

The military strategy of the United States is a forward strategy, one which utilizes the oceans as barriers in our defense and as avenues for extending our influence abroad. It exploits the principle that in a general war we intend to engage an enemy closer to his border than to ours. This forward strategy depends upon overseas allies, forward deployed military forces, and the mobility to respond to crises around the world.

Forty of our forty-two allies are overseas. The U.S. maintains four Army divisions in Germany, one in Hawaii, another in Korea, and a Marine division in Japan. In time of war, these allies and our own overseas forces are going to have to be reinforced and resupplied.

There are 11 active U.S. Army and Marine divisions located in the United States. If they are to join battle with an enemy they must be transported overseas.

The fiscal year 1984 posture statement goes on to say: "Sealift will bear the brunt of the workload in deployment, reinforcement, and resupply efforts. In any major overseas deployment, sealift will deliver about 95 percent of all the dry cargo and more than 90 percent of all petroleum products."

This overwhelming reliance on sealift is understandable when one considers the enormous quantities of war materiel demanded by the mobility and firepower of modern ground forces. For example, it requires more than 100,000 tons of cargo to deploy a single mechanized division. When overseas, that division will need more than 1,000 tons per day delivered to sustain it in operation. Airlift is planned for the rapid movement of troops to join up with prepositioned equipment, and for the fast delivery of small amounts of critical supplies and materiel. But airlift is severely limited in terms of its ability to move outsized equipment and in the total volume that can be lifted.

A large portion of the organic equipment of modern armies such as bulldozers, bridges, helicopters, and tank retrievers, will not fit in most aircraft. One modern container ship can deliver the equivalent cargo of 150 C–5 aircraft.

Also, airlift is a notorious consumer of fuel. Experience during the 1973 Yom Kipper War with our airlift support for Israel showed that 6 tons of aviation fuel was required for every ton of military cargo delivered in Tel Aviv.

According to the fiscal year 1984 JCS posture statement: "Ships from the U.S. merchant marine represent the single largest domestic source of this sealift. The U.S. relies on the nation's merchant marine as a strategic resource."

In a general war with the Soviet Union, the United States can expect substantial sealift help from the merchant fleets of our allies: Japan, Korea and the NATO countries.

But a more likely scenario than a general war with the Soviet Union is a limited conflict similar to Korea or Vietnam. Southwest Asia—the region embracing the Middle East and the Persian Gulf—is a theater of critical importance to the United States for both political and economic reasons. The probability of trouble in this region is high. For these reasons, a new military command has been established for this region, and the Rapid Deployment Force (RDF) is being tailored for operations in this theater. According to SECDEF Weinberger: "Our current programming for rapid deployment forces focuses primarily on Southwest Asia . . ." (SecDef 1984 Posture Statement)

For the deployment of U.S. forces into Southwest Asia in a contingency operation, the United States must depend upon U.S. flag shipping. History has consistently

demonstrated that our allies are not going to participate in unilateral U.S. military operations, especially those involving Arab or Moslem countries.

According to Vice Admiral Kent J. Carroll, USN, who as Commander Military Sealift Command (MSC) is responsible for providing strategic sealift, about 350 dry cargo ships would be needed to support the deployment of the RDF to the Indian Ocean region.

Since the recent British operations in the Falklands so dramatically illustrated the absolute essentiality of sealift in an overseas campaign, the adequacy of our own sealift resources has been questioned.

NATIONAL DEFENSE SEALIFT ASSETS

There are four sources of sealift shipping within our own U.S. assets: The Military Sealift Command (MSC); the National Defense Reserve Fleet (NDRF); the Ready Reserve Force (RRF), which is part of the NDRF; and the liner (general cargo ships) sector of the U.S. merchant marine.

The MSC owns only 6 general cargo ships suitable for sealift.

In addition to the 30 RRF ships maintained in a 5 to 10 day readiness status, the National Defense Reserve Fleet includes 150 general cargo ships laid up in "mothballs".

The U.S. flag privately owned fleet includes about 244 general cargo ships. These are container, ro-ro, barge carrying, and breakbulk ships. All, according to the MSC, are useful for military sealift functions.

Theoretically, these sources will provide the United States with a paper capability of 430 dry cargo ships which could in a national emergency be requisitioned and reactivated for sealift.

However some practical reservations must be put on those numbers.

To requisition all 244 general cargo ships in the U.S. merchant marine would in effect remove every U.S. flag cargo ship from the trade lanes of the world, both domestic and overseas. Clearly this is an action that would have to be most carefully considered and taken only in the most severe emergency. The abandonment of the U.S. trade lanes to foreign flags would have the most adverse long term consequences.

Then there are serious questions as to how many of the 180 dry cargo ships in the NDRF actually represent useful sealift assets. 140 of the ships are world War II hulls built in 1945 or prior. Many of these are extensively used before being retired and are badly worn and prone to failure. Other ships which have had less hard use, are equipped with machinery which was manufactured many years ago and for which there are no replacement parts or support equipment. Admiral H. E. Shear, the Maritime Administrator very recently said:

"MARAD has extreme reservations as to the continued viability of many ships in the NDRF, particularly those with construction dates prior to 1950. . . . No ship forty years of age or older can be considered to be a reliable asset in time of emergency. Our planning should so indicate."

Even with the requisitioning of all available ships from the private sector, the total U.S. flag sealift fleet would amount to something between 290 and 430 ships. This could be either a modest cushion or a sixty ship shortfall in the Southwest Asia requirement.

POSTURE OF THE U.S. MERCHANT MARINE

Unfortunately, unless some positive actions are taken to improve our sealift posture, the situation will get worse not better. The JCS further observed: "At the same time as the U.S. military is putting increased emphasis on the role of sealift in strategic mobility, U.S. sealift assets continue to decline. Over the last thirty years the number of militarily useful dry cargo ships available from the U.S. merchant marine, the National Defense Reserve Fleet, the Ready Reserve Force and the Military Sealift Command has declined from 2,400 to about 440." (1984 Posture Statement.)

It should be noted that the JCS comment did not take into consideration Admiral Shear's dire appraisal of the condition of the NDRF, nor does it point out that the condition of the NDRF will continue to decline with the passage of time.

The U.S. merchant marine is the critical element in determining whether the United States has adequate shipping resources. It provides virtually all of the operating ships in the sealift fleet. Retired U.S. merchant marine vessels constitute the only input to the NDRF. The mobilization crews for the NDRF ships are drawn from the pool of civilian mariners generated by the U.S. flag merchant marine.

Therefore as a minimum, U.S. defense planners must be concerned that the U.S. merchant marine is not reduced below its present size. Preferably the liner force should be expanded by about 100 ships so that the requirements for sealift in a major contingency operation can be met in the future with the phasing out of the 140 World War II hulls from the NDRF. If the liner fleet were to remain the same size, but were simply upgraded by the acquisition of modern replacement ships, the sealift crisis would somewhat ease. The older—mainly breakbulk—commercial ships displaced by the new acquisitions would migrate to the NDRF, and the total number of national sealift assets would be increased.

NATIONAL MARITIME PROGRAM

Against this background of declining capabilities and growing requirements it is clear that some significant actions must be taken to improve the sealift posture of our strategic resources. We as a nation must be concerned with the erosion of our U.S. flag liner fleet capabilities, and be prepared to support whatever actions are necessary to halt this decline and restore the U.S. merchant marine to a position of economic strength and strategic capacity adequate to fulfill the industrial and military requirements of the United States.

The main thrust of such a maritime effort should be regulatory reform, increased cargoes, and fleet modernization and replacement.

Regulatory Reform would be accomplished through legislation such as the Ocean Shipping Act of 1983 (S. 47 and H.R. 1878) which would go a long way toward removing the restrictive burdens currently imposed on U.S. flag carriers.

Increased cargoes will result in some degree from the improved competitive position resulting from regulatory reform and fleet modernization, but there still remains the problem of competing with foreign carriers which benefit from national policies affording various forms of cargo preference and subsidization. The response to subsidized foreign competition should be two-fold: first, to require meticulous adherence to our own current cargo preference laws which reserve certain portions of government impelled cargoes to U.S.-flag vessels; and second, the extension of bilateral agreements such as those now in effect with Brazil and Argentina.

Fleet modernization requires the construction of new vessels or the modification of existing ships to provide replacement vessels with significantly improved efficiencies in propulsion systems, manning levels, and cargo handling equipment. With U.S. built vessels costing between two and three times as much as identical ships acquired in foreign yards, this replacement program can only be effected if some form of cost parity to the U.S. operators is provided. The liner industry is unique in the fact that it is exclusively engaged in international trade and therefore in direct competition with foreign shipping. Having no domestic market base, the U.S. flag liner companies must have capital costs comparable to the foreign competition. The two alternatives are: Some form of construction differential subsidy to provide full parity in domestic construction or the authority for U.S. operators to build or acquire their ships on the foreign market.

At this time last year we pointed out that the President, as a candidate, had specifically emphasized the importance of our national flag fleet and we noted that the Administration was committed to conduct ". . . a full review of maritime policies . . .". On May 20 and August 5 of last year Transportation Secretary Lewis announced the first and second parts of the Administration's promotional policy review and the policy decisions resulting therefrom. While we understand that some of these issues will be forwarded to your Committee in the form of proposed legislation, and may be the subject of hearings during which we would present more detailed views, we believe it is appropriate to comment on a number of them as they now directly impact on the Maritime Administration's programs and budget.

OPERATING DIFFERENTIAL SUBSIDIES

The Administration has stated that it will honor all existing ODS contracts but that no new contracts will be signed. ODS budget authority requested for fiscal year 1984 is $429 million. We understand that this amount is considered by the Maritime Administration to be sufficient to meet anticipated ODS payments.

Increasingly, we hear statements such as "ODS costs are going through the roof" of that "the present system doesn't work". The first statement is incorrect and the second ignores the fact that what has failed is not the concept but the implementation.

Our national policy has long recognized that the national defense role of U.S. flag ships and citizen seamen dictates that the higher cost of employing U.S. seamen should be borne by the nation as a whole through a seaman's wage differential. This

parity system of roughly equalizing costs of employing U.S. seamen rather than low-cost foreign labor was adopted in 1936 after a number of other subsidy systems had failed.

During the past 40 years, dozens of Congressional and Executive branch studies have concluded that the ODS parity system is the cheapest and the most effective way of equalizing wage costs so that U.S. carriers can compete while employing citizen seamen. Commercially, this parity concept is designed to improve rather than to burden the position of U.S. exports in international markets.

Just as with national security, this consideration of our economic welfare is more important now than ever in the past. The presence of U.S. flag operators who are primarily committed to the U.S. trades tends to dampen rate increases which, in their absence, might be implemented by foreign operators with less commitment to U.S. economic interests.

It should be noted that, properly administered, the cost parity program puts the American operator, both liner and bulk, under the same competitive pressures as foreign operators in any given trade, and thus further contributes to the cost efficiency of the overall program. The long-term stability and operating cost parity provided by the present program is essential if the liner industry is to continue attracting new capital investment.

Even those who recognize that the ODS program has sustained the only viable portion of our foreign trading merchant marine often charge that ODS costs are getting out of hand. This is incorrect, as you can see from Exhibit 1 attached to this statement, which shows net ODS payments in current and constant dollars for a 31 year period. Anticipated costs in constant dollars for 1984 are near the lowest in history. Further, they are only about half of the constant dollar cost for 1964. While it is true that the number of subsidized liner ships has declined during this 31 year period it is also true that because of increased vessel size and efficiency, particularly in turnaround time, the annual ton-mile capacity of the fleet has increased.

The Administration has also announced an intention to administratively reform the ODS program in some areas to increase operating flexibility and reduce costs in the program. Admiral Shear has met with officials of liner and bulk carriers to discuss some of these proposals and we look forward to working with him and the Department of Transportation as they progress.

CONSTRUCTION DIFFERENTIAL SUBSIDIES

The Administration has announced that the moratorium on signing new CDS contracts shall be continued. The fiscal year 1984 Budget states that ". . . the Administration proposes to eliminate construction subsidies altogether.". To compensate for the elimination of construction subsidies the Administration is supporting authority for U.S. flag ship operators to construct or acquire vessels outside the United States and still receive ODS. Further, the Administration has stated that permission should be granted to U.S. flag vessel operators to use existing and newly deposited tax deferred monies in Capital Construction Funds to construct or acquire foreign built vessels.

We were deeply disappointed by the failure of the 97th Congress to continue the limited "build foreign" authority which expired on September 30, 1982. The position of CASO members as stated consistently before Congressional Committees and repeated publicly from the time it became apparent that the Reagan Administration intended to eliminate the construction differential subsidy program, has been.

CASO members would prefer to build ships in the United States subject only to the requirement that, when they do so, these liner vessels must be permitted to have full parity with their foreign competition with regard to cost, technology and delivery time. Full parity with regard to these competitive factors is essential if the U.S. liners are to survive in the face of severe and continuous competition from foreign operators; whenever it is necessary in order to maintain the domestic shipbuilding base, the government should provide sufficient incentives to permit ODS contractors to build in the United States with full parity; whenever CDS funds are not available, and parity cannot be achieved in the United States, ODS contractors should be authorized to acquire, construct or reconstruct vessels in the world market; and such liner vessels must have identical rights, duties and restrictions under ODS contracts and the Merchant Marine Act of 1936 as liner vessels built in the United States.

Assurance of parity for U.S. liner operators in capital costs and the other components mentioned above is essential for the long-term planning of fleet replacement and expansion programs. While this aspect is seldom discussed, it is also essential

should an existing vessel be lost from service, as liner operations by definition require a fixed number of vessels to serve a given route on schedule.

U.S. owners with ODS contracts are obligated under those contracts to periodically replace vessels in their fleet. Liner type vessels currently cost between two and three times as much to build in the United States as they do on the world market. It is, therefore, impossible for U.S. owners to build in the United States without CDS and remain competitive. CDS is not now available and will not be available, certainly during the remainder of the Reagan Administration. If U.S. operators cannot build in the United States because of the lack of CDS and cannot build abroad because of the law they could be in violation of their ODS contracts through no fault of their own. These contracts were entered into in reliance upon the continued availability of CDS, and the only equitable action that the government can take when it denies CDS is to permit foreign construction, reconstruction, or acquisition. The Reagan Administration recognizes this and has supported the extension of authority for ODS operators to construct, reconstruct, or acquire vessels outside the United States (and remain within the ODS program) in order to meet their ship replacement obligations and maintain the size of the U.S. flag liner fleet which is vital for our national security.

CAPITAL CONSTRUCTION FUND (CCF)

The Capital Construction Fund (CCF) program created under Section 607 of the Merchant Marine Act, 1936, is an essential part of the upgrading and replacement program of U.S. flag liner operators. CASO members believe that the existence of Capital Construction Funds is the single most powerful element fueling U.S. flag ship construction. The ability to deposit earnings into a CCF during periods of profitability for steamship operators for later investment in new construction has been invaluable. It has permitted the cyclical steamship industry to accumulate funds on a tax deferred basis for future investment in U.S. flag tonnage.

The current Capital Construction Fund program came into existence with the 1970 Merchant Marine Act. Prior to that time only the select group of a dozen subsidized operators had enjoyed any tax deferral for vessel construction. One of the convincing reasons for the extension of the Capital Construction Fund to all U.S. operators was the bias in the United States tax law which continues today toward foreign operations and construction of vessels. The provisions for taxing foreign shipping companies owned by U.S. citizens, often referred to as Subpart F of the Internal Revenue Code, provide that as long as a U.S. investor maintains his shipping interests outside the United States under foreign flag and reinvests the earnings in additional assets no taxation of the earnings generated by the foreign operations is imposed by U.S. law.

It must be remembered that the Capital Construction Fund program is designed to assist in the maintenance and upgrading of a U.S. flag merchant fleet. Under its provisions a deduction from earnings is achieved only if money is, in fact, deposited in a fund. This fund must be used for the acquisition of new vessels or reconstruction of existing vessels or the tax benefit will be lost.

Prohibiting the use of Section 607 for the construction, reconstruction, or acquisition of vessels on the world market to be brought under the U.S. flag will help no one and will almost certainly result in an unnecessary and nationally undersirable decline in the U.S. flag liner fleet. As with "build foreign" generally, the Reagan Administration has recognized the essential nature of the CCF program and has recommended that Section 607 be made applicable to vessels constructed, reconstructed or acquired on the world market.

FUTURE OF THE U.S. MERCHANT MARINE

Without government ship construction subsidies that will provide capital acquisition parity with the foreign competition, U.S. operators will not build their ships in the United States. If the U.S. operators do not, in the absence of CDS, have the authority to acquire ships abroad, they will simply not get replacements. Without an orderly program of fleet modernization, in which their older steam driven, breakbulk, labor intensive ships are replaced with new, economical diesel powered, highly mechanized cargo ships with substantially reduced crew sizes, U.S. operators will simply phase out of business over a period of time.

Therein lies a dilemma. The nation needs a shipbuilding base adequate to fulfill its industrial mobilization requirements. The nation also needs a U.S. flag merchant marine to provide the strategic sealift assets required by our military plans.

The concept of a construction differential subsidy was created to satisfy both of these needs—sustaining the shipyard mobilization base, and to provide a merchant

marine which could be depended upon in time of emergency or war to properly fulfill its defense role. Without CDS, both commercial shipbuilders and ship operators are faced with problems so severe that the survival of substantial sectors of both industries are in the balance. Without CDS and wihthout the authority to build foreign, our domestic commercial shipbuilding industry and the liner operators—today the only healthy sector of the U.S. merchant marine—will both decline rapidly. Yet both are required for national defense purposes.

This situation presents a formidable dilemma to those responsible for our naticnal maritime policies, but it must be solved, because its resolution is absolutely critical to our national defense capabilities—to logistically execute the military plans essential for the defense of this country.

EXHIBIT 1

OPERATING-DIFFERENTIAL SUBSIDY NET ACCRUALS—LINER OPERATORS ONLY

[In millions]

	Current dollars	Deflator [1]	Constant dollars
Calendar year:			
1954	106.3	89.6	118.6
1955	104.1	90.9	114.5
1956	102.7	94.0	109.3
1957	122.8	97.5	125.9
1958	140.7	100.0	140.7
1959	158.8	101.6	156.3
1960	162.7	103.3	157.5
1961	168.8	104.6	161.4
1962	174.8	105.8	165.2
1963	190.5	107.2	177.7
1964	219.7	108.8	201.9
1965	182.9	110.9	164.9
1966	199.5	113.9	175.1
1967	215.4	117.6	183.2
1968	219.1	122.3	179.1
1969	227.4	128.2	177.3
1970	234.8	135.2	173.6
1971	200.0	141.4	141.4
1972	197.9	146.1	135.4
1973	207.5	154.6	134.2
1974	215.6	169.5	127.2
1975	224.5	185.8	120.8
Fiscal year:			
1976	[2] 226.2	[3] 197.4	114.6
1977	262.6	208.7	125.8
1978	261.2	223.4	116.9
1979	258.2	241.9	106.7
1980	277.7	264.0	105.2
1981	315.7	288.9	109.3
1982	365.3	308.8	118.3
1983	355.6	325.0	109.4
1984 estimated	[2] 372.5	[3] 342.5	108.8

[1] Implicit price deflator (1958 equals 100), U.S. Department of Commerce, Survey of Current Business, October 1974, November 1978.
[2] Budget authority for liner operators.
[3] Deflator for fiscal years 1978 to 1984 are based on forecast from "Review of the U.S. Economy," Data Resources, Inc., February 1983.

Sources: 1954–60—MarAd Annual Report, 1973; 1961–74—MarAd Annual Report, 1975; 1975–76—MarAd, Office of Financial Management; and 1977–84—MarAd.

ADDENDUM TO STATEMENT OF ADM. JAMES L. HOLLOWAY III, USN (RETIRED) PRESIDENT, COUNCIL OF AMERICAN-FLAG SHIP OPERATORS

After preparation of the formal statement on the fiscal year 1984 MarAd authorization bill, it was learned that during hearings on April 14, the Senate Commerce Subcommittee will also take testimony on S. 125 and five maritime promotional bills to be introduced by Senator Stevens at the request of the administration. Be-

cause of the brief time available for filing a formal statement, prepared coments on these additional subjects will be brief. Further comments will be offered as part of the oral statement.

MARITIME PROMOTIONAL BILLS

Secretary Dole has written to the congressional leadership on behalf of the administration recommending legislation to implement five elements of President Reagan's Maritime Promotional Program. Four of these relate directly to foreign building and repair of vessels for U.S. flag operation. The fifth would authorize an increase in the amount of foreign investments in corporations operating U.S. flag ships from 49 percent to 75 percent.

CASO's position as to the percentage of foreign ownership which should be authorized in U.S. vessel operating companies is still in the process of formulation. When an agreed position has been determined by our member companies, the Committee will be informed.

With regard to the four other proposals—to allow ODS contractors to acquire ships abroad for U.S. flag ship operations; to allow carriers to use tax deferred CCF funds for foreign acquisition; to modify the current three year moratorium on carriage of preference cargo on foreign vessels reflagged U.S.; and to repeal the 50 percent tariff on foreign repairs—all are supported by CASO. As set forth in the basic statement on the fiscal year 1984 MarAd authorization bill, it is absolutely essential that U.S. flag liner operators be permitted and encouraged to renew their fleets by acquisition of more competitive and efficient ships. This replacement program can be accomplished in U.S. shipyards if operators are assured full parity with their foreign competitors in acquiring and repairing ships; or it can be done by authorizing ODS contractors to buy ships abroad for U.S. flag operation. If the decision of the Congress and the administration is to permit foreign procurement, then all of the arguments for such procurement apply equally to the need for use of CCF funds, the right for liners to immediately carry government sponsored cargo, and the elimination of the punitive 50 percent tariff on foreign repairs.

S. 125

S. 125 would authorize appropriations of $200,000,000 for payment of construction differential subsidy to U.S. shipyards. As a matter of record, CASO member companies have procured virtually all of the CDS vessels built in U.S. yard since World War II. CASO will continue to do so if the government adopts policies that place the U.S. flag operators on a genuine parity with the foreign flag competition. Because of the enormous capital costs involved in modern liner shipping and the need to charge rates similar to those of foreign flag carriers who compete on every trade route, the U.S. flag operator must have parity as to capital costs, modern technology (such as slow speed diesels) and delivery time. To achieve this parity, it would be necessary to amend S. 125 to eliminate the current 50 percent ceiling on CDS payments and replace it with authorization for MarAd to pay the actual differential.

The buy-American requirements must be amended so that equipment representing the most advanced technology can be acquired overseas if it is not available from U.S. sources.

Further, if S. 125 is to serve as the alternative to build foreign, the amount of CDS would have to be increased substantially above $200,000,000. The cost of a large, new liner vessel in the U.S. is currently about $90,000,000. This is approximately three times the foreign cost. Thus, $200,000,000 in CDS funds would be enough for only three or four ships. To attain the economies of production, carriers are increasingly contracting for a sizable number of vessels in a single flight, recently as many as six to fourteen. In order to obtain these efficiencies in acquisition, and to reduce operating costs, it is essential that the ships, engines, and auxiliary equipment be standard installations constructed in a single shipyard.

Finally, if authorization of CDS is to benefit the U.S. merchant marine or the U.S. shipbuilding industry, some way must be found by the Congress to insure that the administration will spend authorized funds.

[The following information was subsequently received for the record:]

QUESTIONS OF SENATOR INOUYE AND THE ANSWERS THERETO

Question. CASO has suggested the ODS contractors be authorized to acquire, construct or reconstruct vessels in the world market and that these vessels have identi-

cal rights under the Merchant Marine Act of 1936 as if they were built in the United States. CASO's suggested amendment would permit foreign-built ships to operate in the domestic trades.

CASO's statement stresses the need for U.S. liner operators to have capital cost parity with their foreign-flag competition which is essential for long term planning of fleet replacement and expansion programs. Would existing Jones Act operators have capital cost parity with foreign-built ships introduced into the domestic trades under CASO's amendment?

Assuming you anticipate some sort of payment that, theoretically, would equalize U.S. and foreign vessel costs, how specifically would you calculate this cost differential?

How would CASO's proposal take into account the payment of interest calculated on the entire unamortized portion of the foreign/U.S. cost differential allocable to the domestic trade?

Should the interest be calculated on the entire cost differential attributable to the domestic trade as opposed to only that portion of the domestic trade differential attributable to any one year? If the interest is only calculated on one year's domestic trade differential, isn't this like asking for your home mortgage interest to be calculated only on one year's principle payment rather than the entire amount of the loan?

Answer. While CASO has, in the past, supported language in a "Build Foreign" amendment which would permit one of our members to continue operating a service which it has provided for many years, our proposal for an amendment no longer contains that language and would not permit foreign-built vessels to operate in the domestic trades (unless otherwise permitted by existing law).

We continue to believe, however, that the authority to continue a service which has been available to U.S. shippers for approximately fifty years, thereby retaining a choice of carriers, would be in the best interest of shippers and the general population of the area involved.

Question. Would you support a "Build Foreign" provision regardless of whether or not it is accompanied by authorization to use Capital Construction Funds (CCF) for that purpose?

Answer. As noted in our testimony the authority to acquire vessels abroad is, under the current circumstances, essential if we are to upgrade our liner fleet. We see no valid reason why authority to use capital construction funds for that purpose should not be granted. Indeed, as we have noted the failure to do so would help no one and would result in highly inequitable tax treatment at between U.S. owners of foreign-built U.S.-flag vessels and U.S. owners of foreign-flag vessels.

Question. Under the Shipping Act, all vessels in our international trades must have the opportunity to compete fairly and equitably.

If Congress were to enact a "Build Foreign" provision without also providing that Captial Construction Funds could be used for that purpose, would any U.S.-flag liner operator be put at a competitive disadvantage vis-a-vis other U.S.-liner operators?

Answer. Probably not if all similarly situated carriers were treated identically (but see our answer to No. 2 above).

Question. According to MarAd, only 2 replacement obligations for liner vessels are due to be contracted in fiscal year 1984. However, MarAd also says that if a "Build Foreign" provision were enacted, "some replacement vessels required to be contracted in 1985–87 might be ordered from foreign yards in advance."

Is there any reason why these "advance orders" must be placed this year? What would be the disadvantage if these "advance orders" were delayed another year, during which time Congress could legislate our shipbuilding program for operators who want to receive operating subsidy? Or, if we fail to act in that time, we could always enact a "Temporary Build Foreign" program as we did once before.

If we enact a "Build Foreign" program now without due consideration, we will virtually assure that the replacement vessels due in 1985–1987 will be built foreign, and contracted in advance of 1985 as a hedge against Congress changing its mind and repealing the Build Foreign legislation it would enact now.

Answer. In our opinion this is not so much a question of "advance orders" as it is a matter of putting the U.S.-flag operator on a reasonably parity with his foreign competitors.

There are a variety of reasons why carriers may wish to or need to acquire ships abroad during the next year. These include:

A ship may be lost due to an accident or collision. Without a rapid replacement a common carrier liner operator might be rendered totally non-competitive in a given trade.

Contractual replacement obligations referred to in the question were generally established during negotations between contractors and MarAd many years ago. Since that time economic and political conditions in trades have changed, fuel prices have increased tremendously, and new technology has been introduced. Accordingly in some trades it is essential, if an operator is to remain competitive, that he acquire new ships much earlier than expected. Conversely, in other trades where there might be prolonged delays on the foreign side in introducing container terminals or other inter-modal equipment, it might be desirable to defer replacement. In either case the operator must have flexibility to meet the demands of the marketplace if he is to survive.

A carrier may find it desirable to place an order during today's tremendously depressed world ship building market so that he can get a better price even though the ship is not to be delivered for one or two years. Again, the opportunity to maximize his competitive position is essential if he is to compete with the foreigner who has this opportunity.

Question. Under present law, the CDS rate is 50 percent. In many instances, the differential between U.S. and foreign building prices now exceeds this statutory subsidy rate. Thus "parity" is not achieved. If CDS were available, and the subsidy rate were raised to 62 percent, would "parity" be achieved?

Answer. As we discussed in our statement, parity can be achieved only if the U.S.-flag operator has quality with his foreign competitor with regard to total capital costs including financing, availability of modern technology including slow-speed diesels, and delivery time.

With regard to capital cost parity, a 62 percent CDS ceiling would provide parity in some cases, e.g. it would be more than enough to pay the differential on certain high technology liquified natural gas carriers, but would not be sufficient to provide parity on many tankers or liners. One CASO company working with the government found that a 67 percent CDS would be required to provide capital cost parity on a ship ordered several years ago. In view of this situation, we believe that the only realistic solution is to eliminate the ceiling on shipyard subsidies.

Question. In the event our commercial shipyard repair facilities are substantially reduced, both our international fleet and our Jones Act fleet would be forced to rely on foreign yards for much of their repair work.

Wouldn't this be time consuming and expensive? For example, if repair facilities on the West Coast were scarce, where would Matson ships go?

And, if our fleet had to rely on foreign repair yards, couldn't those countries use this fact to pressure the U.S.? In other words, if a country had a diplomatic difference with the U.S., wouldn't it be a simple matter for it to make its repair facilities unavailable to U.S. vessels, under one pretext or another?

Answer. We are not aware of any study or other information which would support the basic premise of this question. Experience and economics would both argue that even if the total number of shipyard repair facilities was substantially reduced, enough would survive to meet actual demand for repair work.

We also doubt that any country could pressure the United States by withholding use of its vessel repair facilities. Many nations throughout the world have vessel repair facilities, and if one nation withheld its resources it would be a relatively easy matter to take a ship to a facility in a nearby country.

Question. A few years ago our international liner fleet was threatened by the drastic rate cutting practices of the Soviet fleet which is 100 percent subsidized. Congress felt it was in the national interest to protect our fleet, and so we passed the Controlled Carrier Act. At the time, there was opposition from the Justice Department on the grounds that we were discouraging competition. Shippers also complained because they felt the law would deprive them of the lower rates—sometimes 60 percent—which the Soviets were offering.

And more recently, there was opposition to S. 47, by many who complained it was anti-competitive. Nevertheless, we felt that the conference system, which permits cartel pricing, needed to be continued and strengthened if the U.S. was to have a competitive merchant fleet.

In both of these cases there were trade-offs, and we struck the balance in favor of our merchant marine.

Why isn't it just as valid to strike the balance in favor of our shipyards?

Answer. It is unfortunate to conclude that the right to build foreign involves a choice between the shipbuilding and merchant marine industries. As we have repeatedly emphasized, CASO members have built virtually all of the ships constructed for foreign trade in U.S. yards since World War II. Given the marginal state of the liner industry, it is absolutely impossible for the operating companies to subsidize our domestic shipbuilding industry. Accordingly, in the absence of parity, in-

cluding availability of adequate CDS funds, not a single ship can be built in the United States.

If parity is available, we will continue to build in the United States. If it is not, authorizing operators to go abroad will not cost the U.S. shipyards a single dollar or a single job. Failure to authorize the operators to build abroad when parity is not available in the U.S. will simply destroy what remains of our liner fleet.

Senator Stevens. Mr. Lee Rice, the OGDEN Corp., representing the Shipbuilders Council of America.

STATEMENT OF M. LEE RICE, PRESIDENT-ELECT, SHIPBUILDERS COUNCIL OF AMERICA

Mr. RICE. Thank you, Mr. Chairman. Good morning.

I would request that my full statement be placed in the record as you have indicated, and also that my oral summary become a part of the record.

Senator Stevens. Thank you very much.

Mr. RICE. I am representing today the Shipbuilders Council of America as its new president-elect.

Under present maritime policy the shipbuiding industry is contracting. This portends the inability of our industry to serve its designated role as a vital component of our national security system.

The Nation's strategy of deterrence is based on the ability to wage and win both limited and major land wars without the use of nuclear weapons. The strategy requires that land and naval forces, once in place, must be sustained for lengthy periods in both battle and battle-ready condition.

Deterrence is successful only if enemy nations believe that we can prevail in any military undertaking. Examination of our capability to provide the sustained sealift required by military actions upon which deterrence is based shows that our capability is deficient.

Military assets, determined by experts within the Department of Defense, are fixed annually, after Congressional review, to match mission with asset requirements. In contrast, we rely upon private ownership to provide sealift and shipyard assets, both of which are essential components of our military capability.

Strikingly, no part of Government is required routinely to determine and submit as a basis for a policy determination conclusions as to the quantity and type of sealift assets required to meet security needs, or the quantity and type of shipbuilding, ship repair, and support industry which constitutes the minimum acceptable mobilization base. There is no person or agency of the Government other than the President who is responsible for assuring that necessary shipping and shipbuilding assets are provided.

The problem is compounded because these assets are available only at a cost. Therefore, absent direction and support by the President, no official can effectively address or solve the problem. Critical decisions which reduce our military capability and thus our security are being made in a management void and in contradiction of the President's stated policy.

This management void is highly visible. For example, the Department of Transportation has proposed under a rulemaking procedure a system under which CDS could be repaid and a group of vessels of low military usefulness gain access to Jones Act trade and

thereby displace as large number of vessels of high military utility which would be scrapped. Further, the administration has announced its support of a plan that would allow the export of Alaskan crude oil, again reducing the supply of vital sealift assets.

The proposed legislation that Admiral Shear discussed today from a shipbuilding point of view is a disaster. Each initiative cited, those of the Department of Transportation and those we heard this morning, deals irresponsibly with the need to maintain our essential shipyard mobilization base.

What must be done? First, experts must determine minimum requirements for both sealift and shipyard capability. On the basis of such information, we must then develop a national cargo policy whereunder cargoes will move on U.S.-flag vessels which are built in domestic shipyards. The quantity and type of vessels in the shipyard base must both meet essential requirements—we believe that a cargo policy based on a meld of direct subsidy, unilateral and bilateral cargo agreements, and cargo preference and reservation must be evolved.

An effective cargo and domestic shipbuilding policy would include enactment of the Trible-Long Competitive Shipping and Shipbuilding Act of 1983, development of a buy-back and build program for Jones Act vessels, and continuation of all present cargo preference and reservation laws with full enforcement.

This set of policy recommendations, if adopted and sustained, can be expected to stimulate construction of about 25 new commercial vessels per year in our yards. None, however, would be liner vessels. Liner vessel construction needs direct construction subsidy, as in S. 125, sponsored by Senator Inouye.

These programs I have just discussed must be in addition to naval construction to fully support the minimum shipyard mobilization base.

Two final points. We do not expect the shipbuilders to be supported without justification. If it is determined that national needs do not require all our shipbuilding capacity, nor require a capability to build commercial vessels, so be it. This broad and farreaching policy decision should, however, not be chosen without due consideration of its consequences.

At a minimum, we deserve to know, as does the entire citizenry, that expert knowledge and sound military and political judgment underlies the policy decision. Such a decision is not credible when based on arbitrary and ideological doctrine alone.

Thank you.

Senator STEVENS. Did your company acquire any foreign-built tonnage under the temporary law?

Mr. RICE. Yes, we did, sir. We acquired two bulk ships, are flagging them United States, and to my knowledge they are the only new ships that have been purchased under that window we had when you could go foreign. We had initially intended to build two companion ships in the United States with subsidy as a basic test.

We have been working with IHI for many years to adapt their technology in America, to improve our productivity. The original plan was to build identical ships in the yards, IHI yards in Japan and in our yards in Avondale. That did not go forward because construction differential subsidies disappeared. And I believe I am cor-

rect when I say that we are the only company who has actually purchased any ships under that provision.

Senator STEVENS. What was the timing differential, if any, in terms of the acquisition of the vessels in the foreign yards as compared to domestic yards?

Mr. RICE. The timing between contract and delivery?

Senator STEVENS. Was there much time, domestic versus foreign?

Mr. RICE. Very little. We are talking about delivery after 30 months and are routinely doing it.

Senator STEVENS. Did you make a study of the difference in terms of the financial aspects of the acquisitions you made foreign-built as compared to domestic-built?

Mr. RICE. Yes, we made such studies quite carefully, and in general in the time frame in which we were purchasing the vessels financing overseas was superior to financing in the United States.

Senator STEVENS. Was the financing—what were the components of the differential? Can you tell us those briefly? I assume one would be the cost of money?

Mr. RICE. That is correct. In Japanese building, the contracts basically are financed under the Japanese Export Bank, 80 percent of the total cost. The 20-percent remaining is paid during the construction period. The practice in Japan is the owner does not pay interest during that period. He pays the 20 percent and then picks up the 80 percent financing, which is probably an 8-year loan.

Senator STEVENS. That is interest-free during construction. And what was the rate on the 80 percent?

Mr. RICE. Eight percent.

Senator STEVENS. Very interesting.

Senator Inouye?

Senator INOUYE. Mr. Rice, I am certain you have heard the testimony of Admiral Holloway, in which the shipowners complained of the lag in delivery schedule and the technology lag. What are your comments?

Mr. RICE. One of the important aspects that one has to consider in building in the United States is that our history has been that our deliveries are slower than the deliveries in foreign yards. There have been tremendous strides made in recent years in the United States to improve our ability to deliver ships more quickly. Adopting the Japanese modular construction system is a key element of that.

We are presently in our shipyard building three very sophisticated product vessels for Exxon, and from the contract date until the delivery of the first ship we will do that in less than 30 months, which is very consistent with what you can do abroad.

Senator INOUYE. What about your technology lag?

Mr. RICE. I do not think there is a technology lag, sir. We have spent many millions of dollars working with the Japanese, learning how they build ships, what their techniques are.

"Technology lag" is really the wrong word. They just have a system under which they work a lot smarter than we have been working. We do not lack facilities or equipment. What we have learned is that their superior engineering approach and then their superior planning and production control are the keys, not differences in equipment, differences in facilities.

Senator INOUYE. What about the so-called slow-speed diesel?

Mr. RICE. That is a significant problem, because there is no domestic manufacturer of slow-speed diesel engines in the United States, for a simple reason: No manufacturer can afford the investment required because there is no market to sell them to, and businessmen really do not make investments unless they hope for a return.

I think that is a disaster, by the way.

Senator INOUYE. What would happen to the shipyards if the administration's proposal is enacted into law?

Mr. RICE. Well, I think the administration, frankly, has reached the conclusion that we should never build another commercial ship in the United States, and has set in process a plan to achieve that objective. I think they believe that our shipyards should be limited to building naval vessels and that alone.

I think every initiative that we have seen over the past 2 years, and certainly the most recent one, indicates that they have written off the need in the United States for a capability to build commercial ships. The result of that in our judgment is that when we finally test the mobilization base against reality, the needs against reality, we will find that there are thousands and thousands fewer people in our shipyards than are necessary from which to start, if in the event we have to go to full-scale mobilization.

The only way to provide those people in the shipyards is to build ships. The only way to get ships built is to provide cargoes for the ships, and that is why we continually stress that the thing that is needed is a national cargo policy that puts cargoes on American-built ships.

Senator INOUYE. Then from your response am I correct to conclude that Jones Act ships such as those in the Pacific would have to have their repairs done in foreign yards?

Mr. RICE. That is a very hard question to answer. The elimination of ad valorem tax we oppose very strongly, because the repair—Admiral Shear did say one thing which was important in that regard.

The present study under way has changed the model of the shipbuilding base that we have used for many years from the 27 yards, increased it to 119 yards, of which 9, by the way, are public yards. So we are talking about 110 private yards. When you then examine the 27 principal yards, you have over 80 percent of the activity. The remaining yards then live on very small vessel construction, offshore vessels, for example, and repair.

It is our judgment that the elimination of ad valorem duty on repair would be devastating to that segment of the industry, which now is being counted in our mobilization base and would then just disappear.

Senator INOUYE. I thank you very much. I have several questions I would like to submit to you for your response.

Mr. RICE. I would be happy to respond.

Senator INOUYE. Thank you, Mr. Chairman.

Senator STEVENS. Senator Trible.

Senator TRIBLE. Mr. Rice, let me welcome you today and congratulate you as the president-designee of the shipbuilders council. Let me say that Ed Hood has been a strong voice for the shipbuild-

ing industry for a number of years and his leadership will be missed. But you, as one who has managed companies that have built and owned and operated ships, certainly are eminently qualified to fill his shoes and help put forward, I think, the bold, innovative policies that are essential if we are going to revitalize America's shipbuilding industry and the maritime industry. And I wish you will and look forward to working with you.

Mr. RICE. Thank you.

Senator TRIBLE. Let me focus on the cost differential that we hear so much about between shipbuilding in the United States and overseas. I am aware that progress is being made in increasing shipyard productivity and reducing costs. A recent Navy bidding experience has shown that costs can be reduced.

Moreover, I read with some interest recently in, I think, Seapower, that your corporation, OGDEN, recently hosted some Japanese shipbuilders, and they suggested a number of cost-saving techniques. Obviously, improvements are being made here at home.

My first question, I guess, is, are we achieving cost savings today and increasing our productivity here at home, and second, I appreciate your kind words about the Trible-Long-Inouye, hopefully Stevens initiative to revitalize the shipbuilding industry, and that bill, as you know, would require a 15-percent reduction in shipbuilding costs. Is that attainable? Is that a realistic goal, given the improvements that are being made and the cost savings that are being achieved? How is that?

Mr. RICE. I am, as a shipbuilder, very optimistic that the 15 percent is very easily attainable. I think that one needs simply to look at the recent bidding experience of shipyards on new naval construction to find that new technologies, meaning the new processes we are using to build ships, are really achieving very substantial reduction in cost.

I wish we had better examples of commercial ships, because that indeed is one of the arguments we have to face, but the fact is, there are really no new commercial ships being built using this new technology, with the exception of the two small tankers being built up at Bath which will be delivered on a good timely basis and at good prices, and the ships being built at Avondale for Exxon.

We are very optimistic. Frankly, we think the industry has made tremendous strides. One of the keys is to have something to build and something you can consistently build, and I think it is very easy for us to meet the requirements of S. 1000 as to cost reduction.

Senator TRIBLE. My word was "disappointment." Your word was "disastrous" in responding to the administration's proposals. Let me ask you specifically, of the 12 or 13 major yards that are involved in new ship construction that would not have naval work to keep them busy, how many of those yards do you believe will be operating 5 years from today if the administration's entire maritime program is implemented?

Mr. RICE. Well, that is a very hard question to answer. In my judgment, we would lose a very large percentage of those yards that are dependent on commercial work. There are not very many yards making money today. The shipbuilding base would be reduced to the Navy building program.

We project in 1983 and 1984 that there will be a very sharp decline in employment based on the Navy's building program, even though we talk very bravely about that supporting our yards. It is not even clear that the 12 yards you refer to all would be able to stay in business, because the Navy program simply will not effectively sustain viable capability in all those yards.

Let me use the Avondale yard as an example, the one I know the best. At the present time, we have three contracts, the last commercial contract we ever expect to get if these policies were put into being, and I will have to couple that with the administration's initiative to destroy the Jones Act trade which they are attempting to do, and I would like to come back to that in a minute.

We are following that with the conversion of SL–7's. We have two ships yet to be funded in the 1984 budget, and we have a contract to begin work on the military vessels, the TAO's. Now, of that entire body of work, I will complete all the engineering phases of it in 1983.

Now, I have roughly $15 million to $18 million of costs associated with that engineering department, and no shipyard can maintain an engineering department at that kind of cost if they are not working, and unless there is new construction coming forward, and very quickly, because by the end of 1983, the TAO will be engineered, and that is the last ship that we see that will require an engineering department, I lose the engineering department, and all the management that goes with it.

Now, I am asked to mobilize, and I am asked suddenly to surge my capability up to 3 or 4 or 5 times what it is. I literally do not think we can do it. We need to preserve a capability far greater than can ever be provided with the Navy programs, and I think this committee should not ignore the initiatives of the Department of Transportation in what it is proposing to do in the Jones Act on the repayment of CDS.

We think that that destroys a vital segment of our sea lift capability, the very vessels that the military counts on to move petroleum products overseas in an emergency, and that was admittedly done without any consideration of the implications for national security. Something is fundamentally wrong in our system when things like that can happen.

Senator STEVENS. Would the Senator yield?

Senator TRIBLE. I would be happy to yield.

Senator STEVENS. You know, the trouble I have, Mr. Rice, is that we also represent people who want to export, and we represent—I represent the State you are talking about in terms of Alaskan oil. Let us get away from oil and just talk about fish for a minute.

The Japanese take 3 billion pounds of fish a year out of Alaskan waters. The reason they do is because the cost of shipping the fish in Jones Act vessels is twice the value of the fish to an American fisherman. To a Japanese fisherman, it is half the value of the fish. So they take the fish to Korea and process it and then ship it halfway around the world to New England or to California, and they still beat our people trying to get our fish to California or to the gulf or east coast.

The burden of the policy that you suggest is currently on the domestic producer, not upon the taxpayer, and I think the adminis-

tration has not been as soulless as you suggest in trying to find a way out. What my problem is is, I do not know why the industry has not looked at it.

For instance, have you ever suggested putting the concept of the CCF to work for the shipyards? Why should not the successful shipyard have a CCF? Have you ever suggested an immune area from taxation so that we could really have a concept where the Korean shipyard and your shipyard operated on a parity as far as domestic policy is concerned?

Have we really ever looked at the problem of trying to shift the burden that we now have on our domestic producers and domestic—well, particularly the food producers, the farmers and the fishermen, feel very strongly. Have we ever looked at that, trying to shift that to the foreign competitor in your field, in other words, trying to take away some of his business and getting you more revenue by taking away some of his business? I am not sure we have.

I think we have repeatedly said, let us use the protection mechanisms of the cabotage laws. Let us use the protection mechanisms of our system and try to protect it. And what we have protected now we all know is less than one-third—well, it is not even 10 percent of what we had when we started these policies.

They are not working. The administration is trying to make them work. I do not agree with what they are doing, but at least they are thinking, and I am not sure by the presentation I have heard so far that the industry is thinking of how to solve the problem of the domestic producer and putting people back to work in this country, processing agricultural products, processing fish, and meeting our own markets.

I hope that the committee will help me. We are going to review it. As cochairman of OTA, I have asked the OTA to make some studies. What could we do to assist you in meeting your problem while at the same time take that burden off my fishermen and off the North Dakota farmer that currently is there, that leads to these problems we have in terms of that one bill as far as the cargo preference concept?

Now, unless we understand the problems that are coming at is from our people who are out of work because they cannot compete, then your problem is going to get worse.

Mr. RICE. Well, Senator, let me just respond. It is not a very simple thing to solve the problem. I think it is a very complicated problem. The way I look at it as a citizen is sea lift and shipyards are an absolute component of our national security system. They have to be paid for. We either have to decide we want them or we do not want them.

Senator STEVENS. But who should pay for them, Mr. Rice, my fishermen or the taxpayers?

Mr. RICE. That is the fundamental question. Either the general treasury funds have to pay for them, which implies that you have to have a system of subsidy using general treasury funds, or the other approach is to make the user pay. The Jones Act makes the user pay. Trible-Long will make the user pay. That is another approach.

Senator STEVENS. Let us take a look at my oil, the Alaskan oil, because it cannot be exported, sold at $2 less a barrel in the U.S.

ports. It is a fact that it cannot be exported at the destination price. That is the only destination priced oil in the world. Did you know that? There is not an Alaska price for oil. There is a different price for Alaska oil in Pennsylvania, as compared to South Carolina, as compared to the Virgin Islands, as compared to Texas, San Diego, and going all the way up to Billingham.

Alaskan oil sells at a different price in every port in the United States because it only can be sold in the United States. If the prohibition were removed, it would be world price for oil, for Alaskan oil, and that oil would come back to a concept of being sold mostly in the United States because it is our oil, but it is a fact as a matter of fact Alaskan oil brings in less money.

Do you know who gets that difference? The Federal Government gets 70 percent of the difference.

Mr. RICE. That is correct.

Senator STEVENS. So the Federal Government is now losing 70 percent of the difference in the value of that oil in the windfall profits tax revenues. Take a look at them; they are down $2 billion. I think we have been shortsighted in not trying to work together to solve your problem, while recognizing the problems that exist in the producing areas of the United States.

I hope that you all will get together with us and try, and Senator Inouye has indicated in his opening statement—I congratulate him for it. He has been one of the leaders in searching for a solution to this dilemma, but somehow it is there.

I am sorry, gentlemen. I have monopolized this. If you want to respond, you certainly have 5 minutes coming again.

Mr. RICE. No. I would simply recognize that there is an extremely difficult problem once you burden the user with paying for an asset that is defined as a national security asset. I have no disagreement with that. It is a difficult problem. But it is a decision that this nation has to make. We have to do it one way or another, in my judgment, and we are completely prepared to work with anybody to examine any ideas. We have put forward ideas.

We think the fundamental is the development of a national cargo policy, and until that is done, the resulting problems just do not have a solution.

Senator STEVENS. I think the fundamental difference between you and me is that I want a national maritime policy, not just a national cargo policy.

Mr. RICE. I think from a national cargo policy a national maritime policy flows, sir.

Senator STEVENS. Gentlemen, do you have any questions?

Senator TRIBLE. No further questions.

[The statement follows:]

STATEMENT OF M. LEE RICE ON BEHALF OF THE SHIPBUILDERS COUNCIL OF AMERICA

I am Lee Rice and am appearing as President-elect of the Shipbuilders Council of America. The Council is a trade association representing principal shipbuilders, shiprepairers and suppliers to these industries of services, materials and equipment.

Present maritime policy is leading the shipbuilding into continuing contraction which portends the inability of our industry to function as a vital national asset. Our conclusion that the Administration has deemed our industry to be useful only as a supplier to the Navy and therefore should not be supported otherwise, remains accurate. The Fiscal Year 1984 Authorization sought for the Maritime Administra-

tion continues the premise that commercial shipbuilding capability is not a national requirement and fosters the elimination of it.

Today, I direct your attention beyond the crisis faced by the shipbuilding industry to a broader issue—the unrecognized crisis in our nation's security.

The United States is engaged in a major buildup of military forces. The buildup is premised upon the strategic concept that adequate military strength is essential to deter aggression by adversary nations and to maintain freedom in a sector of the world community. Strategic planning extends far beyond the limited concept of deterrence based on the potential use of nuclear weapons of mass destruction. Our deterrence strategy now includes the ability to wage, and win, both limited and major land wars without the use of nuclear weapons.

Thus, strategic plans include the capability to move both naval forces and large numbers of troops and their equipment into both developed and inhospitable and underdeveloped areas of the world. To implement this plan, the Department of Defense has underway the creation of a seabased forward force deployment capability supported by the Rapid Development Force and a major buildup of our Navy's capability for forward force projection. The strategy requires that land and naval forces must be sustained for lengthy periods in both battle and battle-ready conditions, once in place. The logistic requirements of these plans are massive and difficult to develop and execute.

Achievement of deterrence through military strength is possible only if enemy nations view our capability to prevail in any military undertaking as credible. Our strategic planning is deficient in credibility when our capability to provide the sustained sealift required for successful military actions is examined. This is the unrecognized crisis in our national security.

It has long been the policy of our nation, as set forth in the Merchant Marine Acts of 1920 and 1936, that we should rely upon private ownership to provide maritime assets which are essential to the nation's welfare and security.

Reliance upon private ownership carries with it the presumption that commercial opportunities will exist, sufficient in promise, to induce investors and operators to create and maintain essential maritime assets. The policy also presumes that private ownership of shipping assets, which are predominantly intended to serve commercial markets, will provide assets that are both adequate in number and have design and operational characteristics to meet military sealift needs.

The Shipbuilders Council does not claim to be expert in either military logistics or strategic planning. We, therefore, will not attempt to define the type of shipping and shipbuilding capability which is called for within the Merchant Marine Act of 1936 or the requirements for these assets which make our ability to sustain our forces overseas credible. However, a substantial body of data and expert testimony given to the Congress of the United States over the recent past, leads us to conclude that neither shipping nor shipbuilding assets presently in existence are sufficient to meet minimum needs. Further, the divergence between need and the supply of these assets will rapidly increase in the future. We therefore offer judgment as to the need for additional sealift assets and support for the shipyard mobilization base.

How did this situation come to exist and how is it allowed to continue, unaddressed and uncorrected? The cumulative effect of many national problems which remain unresolved has caused the present situation to exist. Study of this matter is worthy work for political historians. Our analysis, however, focuses upon one dominant issue. There is no element of the government which is routinely required to determine and submit as a basis for policy determination, conclusions as to:

(1) The quantity and type of sealift assets required to meet security needs, and

(2) The quantity and type of shipbuilding, shiprepair and support industry which constitute the minimum acceptable mobilization base.

Of even greater importance is the fact that there is no person or agency of the government, other than the President, who is responsible for assuring that necessary shipping and shipbuilding assets are provided. This result in a major void in the management of our national security system.

The problem is compounded by the fact that provision of the nation's shipping and shipbuilding capacity is achieved only at a cost. Therefore, absent direction and support by the President, no official within government can effectively address or solve the problem.

In mid-1982, the Executive Office directed that the Department of Defense, jointly with the Navy and the Maritime Administration, undertake analyses which would address demand for U.S. flag sealift and establish the required minimum shipyard mobilization base. These studies are complex and the resulting conclusions will be far-reaching. Completion of the task is expected in the near future.

It is predictable that the study will conclude that the ready availability of substantial sealift assets and shipbuilding capability remain a national requirement. Consequently, it follows that prior to implementation, all changes in policy should be tested to measure their effect upon the availability of our shipping and shipbuilding assets. Logically, the test should measure whether or not the policy causes either sealift or shipbuilding assets to fall below affirmable needs. No such test is either required or carried out. Maritime policy as a consequence, can be changed in contravention of national security interests. The cause is the void that exists in the management of our security system.

This void is highly visible. For example, the Department of Transportation has proposed under a Rulemaking procedure, a system under which CDS could be repaid and a large group of vessels of low military usefulness could gain access to Jones Act trades. Such entry of tonnage would result in the displacement of a large number of vessels of high military utility. The Department of Transportation predicts, further, that these displaced vessels will be scrapped. Also, it is expected that the Administration has announced its support of a plan that would allow the export of Alaskan crude oil. Each is a prime example of policymaking devoid of responsible consideration of the national security.

Attached to this Statement are two documents we have prepared. The first is our comment regarding the proposed Rule under which permanent rules for the repayment of CDS would be fixed by the Department of Transportation. The second is a study prepared at the request of the General Accounting Office pertaining to export of Alaskan petroleum resources. In each case, the Shipbuilders Council opposes the proposed policy changes because of the resultant reduction in our military capability. At stake is the credibility of our strategic deterrence since each policy change would cause significant depletion of vital shipping and shipbuilding assets.

We trust that you will study our arguments presented in these documents and reach judgment as to the effect of each proposed policy change and its desirability.

In the past two years, we have witnessed other policy changes enacted without due consideration of national security. Examples are the elimination of CDS, restriction of Title XI and the buyout and planned termination of ODS. these policy changes have all been argued as justified because of the failure of maritime policy pre-1980. We contend that maritime policy post-1980 is an even greater failure.

Present policy, which is concerned solely with U.S. flag sealift, in our opinion, will cause unacceptable reduction in shipbuilding capacity. We have concluded that those responsible for the administration of maritime affairs ignore the innate linkage between our total maritime capability national security.

Indeed, the efficacy of post-1980 maritime programs to provide military capability required by the nation is being further eroded by the proposals put forth by the Administration to: (1) renew/build foreign liberties, (2) provide immediate eligibility of foreign built vessels to participate in cargo preference programs, (3) allow tax-deferred capital construction funds to be used for foreign building, and (4) eliminate the Ad Valorem Tariff on foreign repairs.

Further, we believe that, given present constraints, no new maritime policy can provide either adequate sealift or shipbuilding assets.

What should then be done? First, we must return to basic issues. Work, now underway within Executive Departments to determine sealift and shipbuilding needs must be completed as promptly as is possible. Then, and only then, will we have a realistic standard upon which maritime policy can be based.

We believe that the study will confirm our conclusions that: (1) Neither sealift capability nor the shipyard mobilization base is sufficient at present, and (2) That adequate sealift and shipyard capability will not be available in the future if present policies are continued.

To increase and maintain adequate levels of shipping and shipbuilding assets, owners must be induced to purchase vessels from domestic shipyards.

Owners will not purchase vessels unless the investment makes economic sense. Profitable employment of the vessels must be predictable. It may well be that neither present protected markets nor world shipping will provide employment at rates which make either investment in sufficient vessels rational or purchase of such vessels from domestic sources reasonable. If this is the case, we must either call upon general treasury funds to pay a fair part of the cost of maintaining our nation's maritime assets, or cause the user of the services of the vessels to pay the costs. There is no other way, if we continue to rely upon private ownership. Vessel and shipyard owners cannot provide these required national assets unless compensated.

Solution to the problems posed by the need to achieve and maintain an adequate sealift capability and an adequate shipyard mobilization base may require politically unpopular decisions. However, solutions are demanded by the needs imposed by

our nation's security doctrine. The requirement to respond is unavoidable if military deterrence is to be more than a hollow shell.

In our opinion, we can forever abhor subsidies, unilateral and bilateral cargo agreements, cargo reservation and preference, but we cannot ignore them if we are to provide and maintain our shipping and shipbuilding assets as acceptable levels.

The Committee requests recommendations of ways to stimulate the domestic shipbuilding industry: stated differently, recommend ways to alternately cause vessels to be purchased from U.S. shipyards. The creation of a national cargo policy, whereunder cargoes will move on U.S.-flag vessels which are built in U.S. shipyards, is the correct objective.

This testimony has focused on the basic dependence of our nation's security and our ability to effectively perform military actions. Military assets, determined by experts in the Department of Defense, are procured annually after full review by the Congress to match military missions with asset requirements. We have shown that a class of assets—the nation's sealift and shipyard industrial base—which we define as national security assets, are vital to the performance of military actions but are not subject to comparable assessment nor procurement processes.

To responsibly respond to the question of stimulation of the shipbuilding industry, the starting point should be an analysis of the sealift assets needed now and in the future and the defined minimum shipyard mobilization base. How best to provide these national security assets should form the basis upon which national cargo policy is fixed. An objective is to provide these assets at the lowest cost to the nation.

Lacking these analyses and data, we assume that tanker and bulk vessels are highly desirable national security assets and are needed in quantities beyond present and projected inventories. Further, we believe that construction of 20 to 25 commercial ships per year is required to maintain the shipyard mobilization base.

Therefore, we recommend the following as part of a cargo and domestic shipbuilding policy:

(1) Enact the Trible-Long Competitive Shipping and Shipbuilding Act of 1983 (S–1000). This cargo policy legislation provides, (1) incentive to owners to purchase bulk vessels and, (2) control and cost reduction management of its cargo reservation provisions. It is estimated that this legislation will stimulate construction of about 17 vessesl per year. Of these vessels, about one-half will be of high military utility.

(2) Develop a buy-back-and-build program for Jones Act vessels. Under the program, vessels over 15 years of age would be purchased by the government and placed either in the reserve fleet or scrapped. All taxable earnings of Jones Act vessels would be eligible for deposit in Capital Construction Fund accounts and for use in building Jones Act tonnage without restriction. This program will provide modern tanker vessels and work for shipyards and their suppliers. Further, the Jones Act should be amended so that any seaborne commerce carried out within 200 miles of our coastline will be included under provisions of the Act. We estimate that enactment will cause 6 to 8 vessels per year to be built in the period 1985–1995.

(3) Continue all present cargo preference and reservation laws relating to the Jones Act, government-impelled and government-supported cargoes, and enforce them fully. Further, require that any regulatory or policy changes which may affect the U.S.-flag fleet or the shipyard mobilization base be made only if the Department of Defense certifies to the Congress that the change does not adversely affect the availability of these national security assets. Additionally, require that all Section 506 waivers under the 1936 Merchant Marine Act meet similar criteria and that all vessels built with construction-differential subsidy now engaged in international commerce continue therein. These actions are necessary to preserve an essential segment of the Jones Act tanker fleet and are an essential part of the natioal cargo policy intended to place cargoes in U.S.-flag vessels. Particularly, cargo preference and reservation laws are vital to the liner segment of our shipping industry.

Absent are recommendations as to how best to cause the construction of liner vessels in U.S. shipyards. The question and its answers are complex. We oppose the export of this work. Therefore, we recommend that any vessel replacement obligations of ODS-supported liner operators be extended until analysis of sealift and mobilization base requirements are completed and reconciled with their availability. Thereafter, meaningful focus can be directed to the development of methods under which this important class of vessels may be built in U.S. shipyards.

Let me state four fundamentals which summarize our position: (1) Critical decisions which reduce our military capability and thus our security are being made under a management void. (2) Present maritime policy is based on arbitrary and ideological doctrine which assigns little, if any, weight to the preservation of our nation's freedom. It is leading, de facto, to the termination of commercial domestic

shipbuilding with the result that the shipbuilding industry is contracting significantly. (3) We must detemine the sealift and shipbuilding capabilities required to meet national security criteria. Following these determinations, we must examine how best to provide needed maritime assets. Meanwhile, we must not enact policies that reduce the availability of such assets. (4) Provision of needed shipping and shipbuilding capabilities will involve a mixture of direct subsidies, unilateral and bilateral cargo agreements and cargo preference and reservation. The recommendations we have made are based on these methods.

In conclusion, two final points are asserted. We, as shipbuilders, neither have our heads in the sand nor do we expect to be supported without adequate justification. If it is determined that our national needs do not require all of our potential capacity nor require a capability to build commercial vessels, so be it. This broad and far-reaching policy position should, however, not be chosen without due consideration of its consequences. We may never agree with this conclusion. At a minimum, we deserve to know, as does the entire citizenry, that expert knowledge and sound military and political judgment underlies such a policy decision. This is lacking at present.

We believe firmly that given a problem, which directly involves our nation's freedom and security, the maritime industry—as citizens, businessmen and labor leaders—working with the Congress and with an Administration also seeking to solve the problem, can do just that. Failure is clearly unacceptable.

Attachments.

THE UNRECOGNIZED CRISIS IN NATIONAL SECURITY

In response to an historically unprecedented effort by the Soviet Union, the United States is engaged in a major buildup of military forces. The buildup is premised upon the strategic concept that adequate military strength is essential to deter aggression by adversary nations and to maintain freedom in a sector of the world community. Strategic planning now extends far beyond the limited concept of deterrence based on the potential use of nuclear weapons of mass destruction. Our deterrence strategy now includes the ability to wage, and win, both limited and major land wars without the use of nuclear weapons.

Thus, strategic plans include the capability to move both naval forces and large numbers of troops and their equipment into developed areas and into inhospitable and underdeveloped areas of the world. To implement this plan, the DOD has underway the creation of a seabased forward force deployment capability, the development of a Rapid Deployment Force, and a major buildup or our Navy's capability for forward force projection. To succeed, land and naval forces, once in place, must be sustained for lengthy periods in both battle and battle-ready conditions. The logistic requirements of our strategic plans are massive and difficult to develop and execute.

A DETERRENT MUST BE COMPLETED IN ORDER TO BE CREDIBLE

Achievement of deterrence through military strength is possible only if enemy nations view as credible our capability to prevail in any military undertaking. Our strategic planning is deficient in credibility when our capability to provide the sustained sealift required for successful military actions is examined. This is the unrecognized crisis in our national security.

It has long been the policy of our nation, as set forth in the Merchant Marine Acts of 1920 and 1936, to rely upon private domestic ownership to provide maritime assets which are essential to the nation's welfare and security. These are: (1) U.S.-flag vessels of sufficient quantity to carry a substantial portion of the nation's commerce and to act as naval auxiliaries in national emergencies, and (2) a domestic shipbuilding industry of sufficient size and capability to meet the shipbuilding and shiprepair demands of the nation in times of national emergency.

Reliance upon private ownership carries with it the presumption that commercial opportunities will exist, sufficient in promise, to induce investors and operators to create and maintain these essential national assets. The policy also presumes that private ownership of shipping assets, which are predominantly intended to serve commercial markets, will provide resources that are both adequate in number and have design and operational characteristics to meet military sealift needs.

The Shipbuilders Council does not claim to be expert in either military logistics or strategic planning. We therefore will not attempt to define the type of shipping and shipbuilding capability which is called for within the Merchant Marine Act of 1936 or the requirements for these assets which make our ability to sustain our forces overseas credible. However, a substantial body of data and expert testimony given to

the Congress shows that neither shipping nor shipbuilding assets presently in existence are sufficient to meet minimum needs. Further, the divergence between need and the supply of these assets in rapidly increasing.

COORDINATION OF NATIONAL SECURITY REQUIREMENTS WITH GOVERNMENT POLICY AFFECTING COMMERCIAL SHIPBUILDING AND SHIPPING IS NEEDED

How did such a situation come to exist and how is it allowed to continue, unaddressed and uncorrected? The cumulative effect of many national problems left unresolved over a long period of time caused the present situation. Study of this matter is worthy work for political historians. Our analysis, however, focuses upon one dominant issue. There is no element of the government, including the Department of Defense, which is required to determine: (1) The quantity and type of sealift assets required to meet security needs, and (2) the quantity and type of shipbuilding, shiprepair and support industry required to sustain the nation's minimum acceptable mobilization base.

Of even greater importance is the fact that there is no person or agency of the government, other than the President, who is responsible to insure that the nation has and maintains the shipping and shipbuilding assets needed in time of crisis. Thus, a major void exists in the management of our national security system.

The problem is compounded by the fact that provision of the nation's shipping and shipbuilding capacity is achieved only at a cost. Therefore, absent direction and support by the President, there is no official within government who can address or solve the problem.

As stated earlier, our maritime policy is that reliance is placed on private ownership to provide the nation's shipping and shipbuilding assets. Since these assets are deficient at present, it is necessary that all changes in policy be measured against their effect on the availability of assets necessary to support national security tasks. Export of Alaskan petroleum resources is no exception and is a profound example of the interplay between government policy and our military security. There are other examples of equal merit and importance. The immediacy of this issue, however, gives it special importance.

THE NATIONAL SECURITY NEED FOR THE JONES ACT FLEET SUPPORTED BY THE ALASKAN OIL TRADE NECESSITATES THE CONTINUED BAN ON EXPORT OF ALASKAN OIL

A conclusion that Alaskan crude should not be exported can be based on the national security need for a class of vessels employed almost exclusively in this trade.

It has long been accepted military doctrine that the capability to move needed petroleum products to support land and sea forces in any emergency must call upon the fleet of privately-owned U.S.-flag tank vessels. Except for a short period in the early 1970s, all U.S.-flag tankers were built to engage in the Jones Act trades. Prior to 1970, this trade was dominated by the coastal movement of petroleum—both crude moving to refineries and products to markets. In the 1960s, the market underwent major changes. Petroleum pipeline distribution became extensive. Large ocean-going barges entered the trade, and substantial quantities of refined products began to be delivered to U.S. markets in foreign-flag vessels. As a consequence, the commercial markets for Jones Act tonnage became limited as owners experienced weakening demand.

Two forces began to act in the 1970s which masked this basic change in Jones Act vessel demand. First, international markets for tanker vessels prompted the construction of substantial U.S.-flag tonnage, built with construction subsidy, and intended to participate in the active and then growing international trades. Second, substantial fields of crude reserves were developed in Alaska. The market for these reserves was the United States. This development prompted the purchase, by both the owners of the crude reserves and independent vessel owners, of a substantial number of vessels to participate in this projected and protected trade. Both building programs were dominated by commercial considerations. Owners built those vessel types which were most promising as commercial investments. No consideration was given as to the match between vessel type and national security needs. As to shipbuilding, it was presumed that any shipbuilding activity was useful in meeting the national need for maintenance of our shipbuilding base.

We know of no study by the government of the connection between the long-term national security demands for either tanker vessels or shipbuilding and policy decisions regarding the movement of Alaskan crude. The action by the Congress which banned the export of Alaskan North Slope crude could have been, but was not, based on maintaining maritime assets.

For many years, it has been accepted that those tank vessels most useful as naval auxiliaries and for supply support are "handy size" product tankers, i.e., those in the 25,000-50,000 dwt size range. In large part, this class of vessel was built to serve the coastwise Jones Act trades of the 1950s and 1960s. Further, it has been presumed that the number of such vessels in existence would match demand. Most recently, the military has increased the size of vessels judged to be useful to include those with refined product capability up to 80,000 dwt. Analysis of the fleet of vessels, so defined, will show that it is limited in both number and tonnage. Although a number of new modern vessels of this class have been built in the last decade, a large number of vessels of this class are reaching the end of their commercially useful life. For example, MarAd's Office of Trade Studies and Statistics in a report issued in November 1982, "Status & Employment Report," includes the following data for all U.S.-flag vessels less than 80,000 dwt, excluding those in the Military Sealift Command fleet.

Age	Number of vessels	Dwt
New construction	12	480,000
5 years or less	11	467,000
6 to 10 years of age	19	676,000
11 to 20 years of age	39	2,062,000

In addition to this fleet, additional vessels exist in the Jones Act fleet in the following categories:

Age	Number of vessels	Dwt
Built prior to 1953	27	551,000
Built between 1953 and 1964	68	2,291,000

These data show that 176 vessels aggregating 6.5 million dwt of capacity exist in the Jones Act fleet. In addition, 10 vessels aggregating 374,000 dwt exist which were built using CDS funds. It is important that of these 186 vessels—aproximately one-half are now over 20 years in age. The capacity of these vessels is 2.8 million dwt.

Both the size and composition of this fleet will be affected by commercial factors as well as by requirements that vessels have segregated ballast, crude oil washing and inert gas systems installed. 1983 and 1986 are the respective effectives dates for installation of such equipment aboard crude and product vessels between 20,000 and 40,000 dwt in accord with the Port and Tanker Safety Act. Significant investment is required by the vessel owner to comply with these requirements. In the face of weakening vessel demand, it is highly likely that significant numbers of older vessels will be scrapped since the new investment required may well exceed vessel value. Thus, the Jones Act fleet size and composition is expected to undergo major change in the next 3 to 5 years.

Assuming that the present fleet is adequate to meet the needs of the military for "handy-size" vessels in a national emergency, what commercial forces will cause the replacement or preservation of those vessels which either reach the end of their commercially viable life due to age or lack of employment? At present, approximately 20 percent of the fleet is in lay-up with poor trading prospects. Where employed, it is engaged in coastwise movements of crude and products, a market dominated by vessels owned by oil companies and the movement of ANS crude from Panama to the U.S. Gulf and East Coasts. This latter market is the primary market of the independent owner. Recently, a pipeline was completed across Panama which significantly reduced the demand for vessels in this trade.

The trading opportunity for roughly one half of the entire privately-owned fleet—less than 20 years of age—is primarily the movement of ANS crude from Panama to Gulf and East Coast ports. If these vessels are to remain in operation and thus most readily available for use to support military actions, they must have viable trade opportunities. The loss of 30 vessels from operating status would make it impossible to ensure delivery of sufficient fuel for aircraft, ships and land vehicles operating in any major conflict overseas. As a consequence, for national security reasons alone,

the movement of ANS crude through Panama must be continued. The export of ANS crude, which would desroy trading opportunity to this vital fleet, must be rejected.

It can, of course, be argued that these shipping assets if unemployed will be placed in the nation's laid-up reserve fleet and will thus continue to be available for use in a national emergency. This may happen, but any argument that a laid-up vessel has the value of an operating vessel is specious. Breakout to make a vessel operable is costly both in time and money. Of greater importance is the need to assemble a competent crew which can be trained in vessel operation to meet emergency needs. It is vital that we maintain adequate complements of trained and experienced ship officers and crews as national assets—without crews, vessels are useless.

Indeed, the basic conclusion that ANS crude must continue to move through Panama deserves to be extended. Is the northbound leg of the ANS crude movement sufficient to maintain our essential fleet? If it is, how long will it last as a commercially viable trade for this vessel class?

An even more important consideration is the question of preserving the capability of the nation's shipyards at both an adequate level of operation and with a capability to design, engineer and construct tank or other commercial vessels. Will, for example, the limited trading patterns for tankers cause new construction demand in the near term, the next five years, the next 10 to 15 years? This is not an idle question but one that must be analyzed and answered if our maritime policy is to function as an important element of national security policy.

Naval ship construction and overhaul cannot either be sufficient in quantity or of the type to maintain the required shipyard mobilization base. Under present policy, we project that the demand for commercial shipbuilding will be grossly insufficient to preserve our vital shipbuilding capability.

It follows, therefore, that if national policy is to continue in reliance on private ownership of vessels and shipyards to provide national security assets, that stimulation of or direct creation of cargo opportunities for U.S.-flag vessels, which must be built in domestic shipyards, will be required as national policy.

CONCLUSION

Our focus has been upon the identification of a significant risk to the nation's security—lack of adequate sealift and shipbuilding support. We have used the transport of ANS crude as a single example to illustrate how government policy may increase the risk. Similar analyses can be made as to other vessel classes, i.e., barge vessels and bulk vessels.

During his 1980 campaign, President Reagan spoke of the need to ensure the maintenance of the ". . . irreplaceable shipbuilding mobilization base." He recognized that: Should our shipbuilding capability continue to decline, America's mobilization potential will be seriously undermined because a large reduction in a skilled shipbuilding workforce today makes any increase tomorrow very difficult. This is a dangerous threat to our national security, jobs, and a key U.S. industry.

From 1980 to the present, a precipitous decline in shipyard activity and capability has occurred despite the President's then stated position.

The sealift and shipbuilding issue requires national attention—immediately.

COMMENTS PERTAINING TO THE NOTICE OF PROPOSED RULEMAKING ISSUED BY DEPARTMENT OF TRANSPORTATION [DOCKET NO. 78; NOTICE NO. 4]

CONSTRUCTION-DIFFERENTIAL SUBSIDY REPAYMENT; TOTAL REPAYMENT POLICY

Preamble

The Shipbuilders Council of America (SCA), whose members are shipbuilders, shiprepairers, and suppliers to the industry of both services and materials and equipment, has studied the Notice of Proposed Rulemaking which proposes to amend 46 CFR Part 276 which sets forth the Department's policy in considering requests for repayment of construction-differential subsidy (CDS), as authorized under the provisions of the Merchant Marine Act of 1936, as amended. The proposed change of policy importantly impacts both the national welfare and the national security. Further, it has a major and direct impact on the shipbuilding industry.

SCA has concluded that the Department of Transportation, functioning as the lead agency under authority granted by the Congress and as delegated by the President of the United States to carry out through the Maritime Administration the administration of the Merchant Marine Act of 1920 and the Merchant Marine Act of 1936, both as amended, proposes to and/or has: (1) Abrogated its duties under these

Acts and in contravention of the stated policy of the President, to provide the nation with an adequate U.S.-flag merchant marine and domestic shipyard base to serve its needs, (2) used faulty logic and incomplete or unreliable data in the development of the proposed Rule, (3) ignored the effect that a change of policy in regard to the export of ANS crude oil would have upon the proposed Rule, a potential for change which will be debated and determined by action of the Congress or lack thereof in regard to the expiration of export restrictions for ANS crude oil contained in The Export Administration Act which expires in September of this year, (4) based arguments which underpin the advocacy position of the Department on unacceptably narrow grounds in seeking to enhance the position of the government at the expense of a limited group of the citizenry, and (5) incorrectly concluded that the proposed policy change can be evaluated under Executive Order 12291, Federal Regulation Requirements, dated February 17, 1981.

Further, SCA is convinced that the Executive Branch of the government does not understand either the fundamental importance that a viable, strong and capable shipbuilding industry represents to the Nation's security or the Nation's policy under which this national asset is to be provided and maintained. President Reagan in 1980 both developed and signed a statement of basic maritime policy which made clear that an adequate domestic shipbuilding industry is a part of the Nation's security system. To date, however, President Reagan has not established nor assigned responsibility within the Administration for the measurement, recording and projection of the future capacity and capability of the shipbuilding industry. Nor is any government Agency or Department Explicitly charged with the responsibility to maintain this asset at an adequate level of functionality consistent with defined national needs.

Thus, no one other than President Reagan himself is directly accountable for insuring that maritime policy and administration thereof is consistent with its innate linkage with the Nation's security. The Department of Transportation is, however, charged with the administration of those very laws, cited above, which set maritime policy. Such policy is that both the Nation's vital sealift and shipbuilding capacity are to have a substantial domestic base, are to be provided by private ownership and are to be sufficient in quantity to meet the Nation's needs. As indicated above, there exists no mechanism under which these needs are reviewed, analyzed and established or responsibility for maintenance of shipping and shipbuilding assets assigned other than loosely by the administration of maritime policy under the purview of the Department of Transportation.

To serve the President, who has retained to himself responsibility for maintaining adequate sealift and shipbuilding resources, it is essential that the Department of Transportation obtain such requirements from military logistic experts and those charged with responsibility for the Nation's strategic planning for war and national emergency since the Department is neither expert nor responsible for these matters. Having obtained such information, then, and only then, can the Department examine and measure rationally the effect of any change of policy or administrative interpretation of policy as to the effect upon the private ownership of the Nation's vital assets—shipping and shipbuilding capacity.

In regard to the proposed Rule which is the subject of these comments, Deputy Assistant Secretary Swinburn has testified that no review of the adverse effect upon the national security has been made. Prudence would seem to dictate that this should be a matter or highest priority rather than an afterthought. Undeniably, the national security will be affected. The Proposed Rule must stand the test of acceptability in this regard.

Stated purpose of the proposed rule

Following the 1970 amendment of the Merchant Marine Act of 1936, the policy of the Maritime Administration was to encourage the investment by shipowners in tank vessels—intended for commercial use in general international trade. These vessels were, in general, financed by a combination of CDS grants and Title XI debt guarantees given under programs administered by the Maritime Administration. In a substantial number of these ship purchase contracts, vessel charters of sufficient length and at acceptable rates were required to support the economic viability of the investments in accord with then existing government policy. In all of the investment decisions made by owners of these vessels, the expected vessel-lifetime trade was the international movement of bulk commodities. No owner can demonstrate any other intent. Additionally, the government accepted inherent risks of the market as to Title XI guarantees based on the vessel charters or market expectations upon which economic viability was established.

History teaches that the change in world market conditions for the shipping services that can be provided by the vessels constructed under this program has resulted in unprofitable operations for vessel charterers and owners. They, however, are not alone. Hundreds of other vessels in the world tanker fleet, both owned and chartered by U.S. citizens and foreign nationals, are in like circumstances. Only because the government has financial involvement in these vessels have they been singled out to receive extraordinary relief. The relief mechanism proposed is a financial "bail-out" of selected owner/charterers and through this "bail-out," protection of the government's risk at the expense of other vessel owners and the shipbuilding industry. In regard to the risk to the government under the Title XI program, the government has been paid by collection of fees for every guarantee issued to accept this risk. It is at best callous that the government now seeks to avoid its risk by a change of policy.

Department of Transportation records, as presented in support of the proposed Rule change, correctly identify the vessels purchased with CDS funds. They have also correctly identified those vessels whose owners or charterers will most benefit from the proposed "bail-out."

The arguments presented in support of the legal right of the Maritime Subsidy Board to allow the payback of CDS and thus qualify the vessel for unrestricted Jones Act privileges rely upon the decisions of the courts in litigation relating to the Seatrain vessels "Stuyvesant" and "Bay Ridge." We believe that the authority defined by the courts rests with the Maritime Subsidy Board and therefore we question why the Department of Transportation has found it necessary to usurp authority to promulgate the proposed new Rule. We, also, believe that the Department of Transportation in extending the authorities defined in the limited scope of the "Stuyvesant" and "Bay Ridge" issues to allow repayment of CDS to a selected class of vesseles in utter disregard for the financial impact on a broad group of the citizenry and upon the overall well-being of the national security is intent upon making a gross error.

The Department of Transportation states that the purpose of the new Rule is to provide improvement in the economic health of owners of the CDS vessels following repayment of CDS through the expected profitable employment in the protected Jones Act trade-admittedly at the expense of the economic well-being of the owners of other vessels to be forced out of the trade as a result. The objectives are stated to be: (1) Recapture of CDS funds to the Treasury which funds would be used in maritime promotional programs; (2) reduction in the potential of calls upon the government for guarantees of debt repayment, purchased by the borrowers; (3) reduction in the cost of transportation of ANS crude; and (4) replacement of older and smaller tankers by more *efficient* CDS built tankers. (emphasis added)

Analysis of the stated purpose of the propsed rule

The stated objectives of recapture of CDS funds is at best a shallow deception. The record of the Administration in developing a meaningful maritime promotional policy is highly disappointing. The CDS program has been eliminated, Title XI financing limited, and the ODS program is being curtailed and eliminated wherever possible. There is no guarantee, whatsoever that any effort would be made to use these funds for other maritime purposes or promotion. Indeed, for this to occur would require that the Administration propose increased budgets to the Congress; an event deemed highly unlikely. Further, it is by no means clear that the cost to the government of the proposed Rule will not exceed the CDS funds repaid. Indeed, the harm to the national security may be beyond measure.

The reduction in exposure of the government under Title XI guarantees by callously shifting risk to a selected class of vessel owners by the device of a policy change evidences a police-state mentality of its proponents. It is argued that Title XI guarantee calls would be reduced because the CDS vessels using repayment privileges would find gainful vessel employment while vessels without Title XI guaranteed financings would be idled and scrapped. Even if this were the likely result, it flys in the face of fairness and the basic purpose of the program itself. The purpose of the Title XI program is to cause U.S. flag vessels to be built and maintained in the fleet and available for national security purposes. It is apparent that the Department of Transportation seeks to avoid risks by deceit and subterfuge and in contravention of the purpose of the program.

Further, the Department has made a grevious error in its presumptions in regard to the affected vessels. The vessels most likely to be negatively affected by the proposed Rule are recently built vessels and vessels presently under construction for entry into the Jones Act trades. Many of these vessels have been financed using Title XI guarantees. These vessels because of the time of building are the highest

cost vessels in the Jones Act trades within their competing classes. Therefore, they must receive a high capital factor in vessel charter hire, if they are to remain economically viable as investments. The "bumping process" which the Department expects to occur, will occur since the ANS movement will be greatly over-tonnaged. The "bumping process" will move older vessels into competition with new of undelivered vessels below 80,000 DWT. No analysis is made, nor is any consideration given to the increased Title XI risk associated with reduction in trading opportunity for this highly important class of vessels. The value of these vessels as contrasted with the CDS vessels will be discussed later as it relates to the national security.

Another major error of logic is also made by the Department when it agrees that those vessels under 80,000 DWT which are displaced from ANS trades can find gainful employment in other trades. They also state that vessels constructed with CDS of size less than 80,000 DWT would not repay CDS to enter Jones Act trades. Since business opportunities for the latter vessels in international trade are nearly nonexistent, and if Jones Act trade is available for vessels displaced from ANS trades, clearly the CDS built vessels would also seek to enter this trade. Logic falters at this juncture because the Department also states that CDS vessels of less thn 80,000 DWT would not seek to repay CDS becsause financial expectations for such vessels would be poor. Poor for the CDS vessels but by some unexplained magic good for the ANS trading Jones Act vessels which are displaced by the proposed rule.

The Department argues that allowing the CDS built vessels into the ANS trade will reduce the cost of transportation and benefit consumers. We agree that excess tonnage capacity will reduce transportation cost during the period in which independent owners seek survival through rate warfare. Since, as the Department states, a large part of the transportation capacity is controlled by the owners of ANS crude, their costs will not be reduced. Any cost reduction will redound to the benefit of the shipper. The price of refined products to consumers is not affected in a major way by the cost of ANS crude but rather by the price of imported crude and products. Perhaps the government may find marginal benefit through a higher windfall profit tax collection but the consumer not at all. If such an increase in the receipts of the government are a hidden objective, it should be stated.

The Department argues throughout its paper in support of the proposed Rule that efficient vessels are better. They do not define efficient. However, reading of their material makes it clear that efficient equates to larger vessels which will offer lower transportation cost per DWT. We question whether this definition is either meaningful or desirable. We note that not a single vessel of those built with CDS which would be expected to enter the ANS trades and displace smaller and "less efficient" vessels would be found to be useful for service as naval auxiliaries in a national emergency. The contrary is true of the smaller "less efficient" vessels the Department is prepared to see scrapped. The Merchant Marine Acts of 1920 and 1936 are both premised upon the value of a commercial merchant marine to support the national security. The Department neglects this fundamental underpinning of our national security base when it cavalierly dismisses this entire issue. Our newest, most efficient and well equipped vessels are vessels recently completed or under construction for Jones Act trades. These same vessels are those most negatively affected by the proposed Rule and are at the same time those most highly useful to support the security interests of the nation. The role of military usefulness of these vessels will continue for the vessel life; if they have an operational life. Does the Department argue that these vessels in layup or in the reserve fleet as a result of debt defaults will make them more useful to the national welfare? This is patent nonsense!

The demand for transport of ANS crude

Although the Department of Transportation does not state the basis for its conclusions about further demand for transport of ANS crude, we must conclude that they have evidence that through-put of the Trans-Alaskan pipeline is to increase in the near future. We question that this is factually supportable. In a world where crude is in excess of demand, and where selling price is falling; what incentives exist for investment needed to increase production or for the strategic desirability of more rapid drawdown of ANS reserves?

Further, we believe that the Administration has in preparation a policy presentation under which it will advocate the export of ANS crude upon expiration or amendment of The Export Administration Act of 1979. This being the case, or at a minimum, until the issue is finalized, ability to project the transportation requirement for ANS crude cannot be made with realism. Therefore, it is, at best, foolhardy to promulgate a new Rule which will have far reaching impact until the issue of transport demand is determined with greater precision.

We are unalterably opposed to the proposed new Rule. However, it is also appropriate to comment on the proposed policy that only unamortized CDS be repaid, which we believe constitutes a major conceptual error and indicates a lack of knowledge by the Department. Repayment of unamortized CDS only is based on the vessels having been engaged in the international trade for a significant portion of "vessel life," defined as 20 years. We find no rational basis for the presumption that vessel life for vessels above 80,000 tons should be regarded as 20 years. In 1993, for example, the class of CDS built 265,000 dwt vessels, which aggregate 1,325,000 dwt, will have an average age of 16.8 years. Will replacement vessels be purchased for delivery in 3 years? Obviously not, unless the crude reserves of Alaska will provide trading opportunities until at least 2016. This is believed to be unlikely. Therefore, a much more likely prospect is that these vessels will undergo life extension procedures which give them a useful life of at least 30 years, a period consistent with ANS reserve depletion. It is also highly pertinent that a large number of the CDS vessels were lease financed. At delivery, each owner established a vessel life of at least 30 years to obtain lease financing. Why now is it then proper to use 20 years as vessel life? The entire class has an established useful life of at least 30 years.

Should not, then, the owner be required to repay the original CDS grant in full—that is if a prime objective is CDS recapture and assuming that the vessels will replace other vessels now employed and which enjoy profitable rates. The increased vessel amortization cost resulting from full repayment of CDS will not increase the required rates beyond the point where the vessels are uncompetitive. Such costs are consistent with the price of 6 months waiver entry into the trade today.

If CDS vessel owners really believe that the ANS market is secure, they should be willing to repay CDS fully,[1] in cash and without Titie XI guaranteed borrowings, plus interest. If not, the Department of Transportation market projections will indeed be proven to be faulty. The owners of the CDS vessels are seeking extraordinary relief. Fairness dictates that they pay for this relief.

Effect on the shipbuilding industry

The Administration has not given meaningful consideration to the adverse consequences to the national security that results from present policies. The direct results of which are that the active shipyard mobilization base is reduced below a defined minimum level and that the nation is set upon a path which eliminates our capacity to build commercial vessels. The policy position that U.S. shipowners should buy vessels from foreign sources with CDS eliminated and the failure of the Administration to develop a sound shipping promotional program has this result. The demise of this important national asset, the capability to build commercial ships, is hastened by the proposed Rule. In the near future, the last international trading vessel either being built or on order will be completed. Shortly, the group of Jones Act vessels currently under construction will also be delivered. Thus, commercial shipbuilding in this nation will be at an end (excepting whatever construction may occur on the Great Lakes because of physical constraints). This is the policy of the Administration, but is it the correct policy? The Merchant Marine Act of 1936 requires that a shipbuilding capability be maintained to meet the requirements of the national security in time of emergency. Reliance upon foreign shipyards to fulfill this requirement is not lawful. It is well known that the naval shipbuilding program neither is an acceptable substitute for a capability to build commercial vessels nor is it sufficient to maintain an adequate shipyard mobilization base. It is our view that the Adminstration has de facto changed the laws of the nation and continues to be, at best, irresponsible in this regard.

In the case of the new Rule proposed to be established, the Department of Transportation seeks to further this irresponsibility. In its material supporting the proposed new Rule, it cites the fact that a significant part of the Jones Act fleet is old and will likely not be modified to comply with the Port and Tanker Safety Act. (Aside, we note, that this tank fleet—which is assigned to be scrapped—is far younger and in better repair and service condition than is the National Defense Reserve Fleet upon which high reliance is placed for breakout and use as a primary component of sealift under defense mobilization planning.)

If the CDS vessels are allowed to repay CDS and enter the Jones Act, as proposed, surplus tonnage will exist in the Jones Act trade for an extended period. A period far longer than would occur with expected retirement and scrappage under normal conditions. U.S. shipyards can expect, within the next few years, that a potential replacement program of Jones Act tonnage would occur. With the availability of the CDS vessels which buy their way into the trade with Department of Transportation

[1] CDS repaid in accord with 6-month waivers would constitute partial repayment.

support, however, the occurrence of such a market will be significantly postponed. Indeed, if the market occurs, it may occur after U.S. shipyards have lost or abandoned the ability to build these needed vessels. Is this part of the overall strategy of the Administration—the complete abrogation of the Jones Act?

Shipbuilders have had a substantial market for tank vessels to serve the Jones Act. Prior to the 1970 amendment to the Merchant Marine Act of 1936, construction of U.S. flag vessels for Jones Act trading was the only basis for any tanker vessel construction. Likewise after the mid 70's, the market essentially returned to the condition existing pre-1970. Is this a market that should be disrupted or abandoned? The following table shows vessels delivered in the years following 1975 and includes the 1983 and 1984 vessels on order. In this Table the "Bay Ridge" and "Stuyvesant" are included as Jones Act vessels. It is also noted that the CDS vessels shown as 1983 and 1984 vessels are to replace vessels under life charter to the Military Sealift Command with Jones Act privileges and therefore, in reality, should be classed as Jones Act tonnage.

The Table clearly shows that the Jones Act market has been of high importance to shipbuilders whereas the CDS market from a practical point of view has not existed in the period after 1976 since vessel orders were placed earlier. Should the adverse effect upon the shipbuilders and their suppliers be ignored in the promulgation of the proposed new Rule? We think not!

Year	Jones Act		CDS	
	Number of vessels	Vessel dwt (thousands)	Number of vessels	Vessel dwt (thousands)
1976	3	78	10	1,088
1977	7	729	6	728
1978	8	1,098		
1979	5	866	1	792
1980	2	220		
1981	6	227		
1982	[1] 8	516		
1983 (to be delivered)	[1] 7	400	1	34
1984 (to be delivered)	3	131	1	34
Total	49	4,265	19	2,676

[1] Includes 3 wrecked ships reconstructed in 1982 and 1 being reconstructed in 1983.

We understand that the principal proponents of the proposed new policy will not be in their present roles in the near future. Secretary Dole is newly in office and in the process of replacing her principal subordinates. Further, the full effect of the Rule upon the shipbuilding and shipping industries will not be immediately apparent. Do we then excuse those new on the scene for past errors? How do we reach those who will have irrevocably harmed the maritime industry and the national security for just retribution? A laissez-faire approach will be applauded by the Soviets and others who would damage the national security.

Moreover, the Department of Transportation's January 31 notice of proposed rulemaking states, without explanation, that this proposal is not considered to be "major" as defined by Executive Order 12291 (see 48 FEDERAL REGISTER 4410).

Under Section 1(b) of E.O. 12291, a major rule is one which is likely to result in: "(1) An annual effect on the economy of $100 million or more; (2) a major increase in costs or prices for consumers, individual industries, Federal, State, or local government agencies, or geographic regions; or (3) significant adverse effects on competition, employment, investment, productivity, innovation, or on the ability of United States-based enterprises to compete with foreign-based enterprises in domestic or export markets."

It is submitted that the proposal is more than likely to result in the events described in E.O. 12291, and that the likelihood is demonstrated not only in this submission, but in DOT's proposal itself.

a. The Proposal is Likely to Have an Annual Effect on the Economy of $100 Million or More.—Over the past 7 years, an average of 5 tankers per year have been built in the United States for the Jones Act domestic oil trades (see table above). The average cost of each of these ships is approximately $53.6 million. In the event that this proposed regulation is implemented, the opportunity to build new ships for

that trade will be terminated for 10 to 15 years. On an annual basis, this would mean a loss of revenue to the shipbuilding industry of over $265 million per year.

In addition, we have been advised informally that most of the companies operating smaller Jones Act tankers, which are most likely to be affected adversely by this proposal, each expects to lose between $10–$15 million in after-tax income each year for the next five years. Assuming on the basis of the Appendix to the proposed Rule that there are at least five companies which would thus be affected an additional $50 million per year in terms of income to ship operators must be added to the likely effect of this proposal, for a total of at least $315 million per year lost to the economy.

b. The Proposal will have Significant Adverse Effects on the Shipbuilding Industry.—The Department of Transportation denial that this proposal is a "major" one under E.O. 12291 is belied by the proposal itself. At 48 FEDERAL REGISTER 4412, DOT makes the confusing statement that:

"With regard to the possible impact of the proposal on shipbuilding, the entry of CDS-built tankers into the domestic trades might, in fact, reduce the demand for new tankers in the Jones Act fleet. Nevertheless, this same industry is the primary beneficiary of the CDS program which contributed to the construction of these tankers, and the economic benefits to be derived from the use of these tankers exceeds any temporary dislocation to the industry which might result from their employments."

Apparently, DOT has forgotten two important facts: first, there is no CDS program now to stimulate new construction; and second, because Jones Act tankers have been a mainstay of commercial ship construction in the United States, elimination of markets for them will cause a major disruption of the industry. It is not clear, but DOT apparently implies, that the commercial shipbuilding industry, having benefitted in the past from the now extinguished CDS program, must now forego survival by having its non-CDS business essentially terminated indefinitely by government edict improperly pursued.

Since the loss of Jones Act tanker construction will deprive the shipbuilding industry of over $265 million in business per year, it necessarily follows that the portion of that revenue which would have been used for investment, improvement of productivity and innovation, and, indeed, the employment of shipyard workers, will not be available. In a commercial shipbuilding market near extinction, this is a significant adverse effect.

Under E.O. 12291, there is no requirement for an absolute determination of a significant-adverse effect, only that it is likely. Clearly, this proposal is likely to have a tremendous impact on the shipbuilding industry in terms of future business opportunities for commercial ship construction. On the basis of the virtually certain impact on shipbuilding and ship operation, it is clear beyond peradventure that this is a "major" proposal under E.O. 12291 which must not be implemented until the terms of that Order are satisfied.

If the Department of Transportation is truly willing to fulfill its responsibility to maintain an adequate national shipbuilding capability, it should, rather than propose that the Jones Act market be flooded with excess tonnage, do just the opposite. It should propose to the Congress, and aggressively support, amendment to the Merchant Marine Act of 1936 to limit the 6-month waiver rule and to allow waivers only under the most extreme cases of national emergency. Of course, it could also accomplish this by not granting the stream of 6-month waivers which have become the norm. If the grant of waivers were terminated, shipbuilders would have a small—but meaningful—market and our national security assets would thereby be enhanced.

Under normal circumstances, we would not suggest the need for legislation in regard to the question of waiver. However, in view of the presently proposed Rule, which shows that investment by vessel owners for Jones Act trading, can at the government's whim be affected in the extreme, we believe that owners must have long term assurance of a stable market without government interference before investment will occur.

The Administration seeks to spend billions in increased defense monies. No government funds are required to obtain a significant benefit to our national security when Jones Act vessels are built. The problem, now, as it has been for many years, is that no one other than the President is held responsible for maintaining an adequate sealift capacity and an adequate national shipbuilding capability.

In the Preamble to these comments, we stated that maritime policy presumes that commercial markets will be such that private owners will purchase and operate vessels which will form our Nation's merchant marine reserve, a reserve to be called upon to serve as naval auxiliaries and support vessels in a national emergency.

Policy further presumes that vessels will be purchased from U.S. shipyards in sufficient quantity to insure that an adequate shipbuilding capacity is maintained also.

In regard to tank vessels alone, we know of no analysis of trading patterns of liquid cargoes which takes into account the dramatic changes that have occurred in the Jones Act trades in the past decade. Prior to 1970, Jones Act vessels were built in numbers to participate in the coastwise movement of crude oil and petroleum products. Largely due to the extensive development of pipeline distribution systems and the increased use of oceangoing barge vessels, this market no longer exists as a major commercial opportunity.

With the completion of the ANS pipeline, an alternative commercial market developed which employed many existing vessels and stimulated the construction of a substantial new fleet. This market has been affected by other forces—the entry by waiver of CDS vessels and the completion of the across-Panama-pipeline. Commercial forces are such that transportation of ANS crude from Valdez to either the West Coast or to Panama is dominated by large crude carriers which are not useful as naval auxiliaries. Thus, the only remaining market for those vessels, which are of highest value to our national security, is the northbound leg of ANS crude delivery—Panama to the Gulf or East Coast. National policy should seek to preserve rather than destroy this market. Indeed, needed are additional markets where this class of vessel can enjoy lasting trade expectations and, thus, will be kept operative and replaced in the future. These markets must offer long term opportunity if private ownership is to occur. If such markets do not exist, the Nation's reliance upon private ownership of militarily useful tank vessels to serve the Nation's needs and partly through construction of these vessels to maintain an adequate shipyard mobilization base and construction capability will be misplaced.

Final comments

The Department of Transportation seeks to impose narrow and ideologically based objectives by administrative fiat. It seeks to protect the interest of the government at the expense of a small segment of the citizenry. All this without public debate or hearing on a matter which is of high importance to the national security. Once promulgated, reversal or correction of the damage casued by the proposed Rule which will destroy the Jones Act fleet as a viable element of our economy and the national security, will be very difficult if not impossible. In our judgment, reliance upon comment upon a proposed Rule where the process does not allow the "give and take" of full investigation and inquiry and where the views of the maritime experts of the Administration—the Maritime Administration and the Maritime Subsidy Board—are not developed in public, constitutes an arrogant display of indiscretion. We strongly suggest that if it is deemed desirable that a change of policy be effected, that it be done by amendment of the Merchant Marine Acts of 1920 and 1936 whereunder the full ramifications of the change can be placed before the public through the full legislative process.

The Department of Transportation should not destroy an efficient private market—the Jones Act fleet and the shipbuilding and shiprepair industries who are its suppliers—under the false guise of deregulation. The shipping and shipbuilding industries see the promulgation of the proposed Rule as the worst kind of government interference in a functioning and efficient market heretofore largely immune from government administrative intrusion and error.

Clearly, the negative impact of the proposed Rule upon the Nation's security, its negative impact upon our presumption—expressed as policy in the Merchant Marine Acts of 1920 and 1936—that commercial markets will exist to stimulate owners to invest in vessels and that owners will purchase these vessels from U.S. shipyards and thus maintain an adequate shipyard mobilization base; far outweigh the meager benefits argued to accrue to the government and to an even lesser extent to the Nation. Thus, the proposed Rule must be rejected and the Department of Transportation dedicate its efforts to the preservation of our vital maritime interests in shipping and shipbuilding.

[The following information was subsequently received for the record:]

QUESTIONS OF SENATOR INOUYE AND THE ANSWERS THERETO

Question. Under the Administration's program, the nation's shipbuilding mobilization base is dependent on its 5-year naval shipbuilding program.

A recent article (Shipyard Weekly, Feb. 3) indicates that the 5-year plan has slowed, and that "the perchant for planning more newbuildings in out years, which never materialize, continues,"

The article states that the Navy shipbuilding plan (fiscal year 1984–fiscal year 1988) on which the fiscal year 1984 budget request is based, totals 124 newbuildings and 21 conversions/acquisitions/reactivations. Whereas comparable numbers in connection with fiscal year 1983–fiscal year 1987 plan were 133 and 16 respectively.

Would you please comment.

Answer. The shipyard mobilization base is dependent on the sum of naval shipbuilding and repair plus commercial newbuildings and repair. Commercial newbuildings are being eliminated by the Administration and repair is proposed to be exported. The naval building and overhaul program alone is not sufficient. Obviously, if the Navy's program is stretched in time—both as to newbuildings and shiprepair and overhaul—the nation's critical mobilization base becomes even more deficient.

As a nation we have a critical problem which the Administration has refused to address.

Question. Much has been said about the inability of U.S. shipyards to compete with foreign shipyards.

To the extent this is true, is lack of a stable workforce a significant factor? Skilled commercial shipyard employment in the U.S. has been on the decline since 1977, whereas the Japanese and Korean shipyards, for example, have been much better workforce continuity.

If lack of a stable workforce is a significant factor, doesn't this suggest that it be stabilized; and if so, how do you do it other than by making work available on a steady basis?

Answer. Lack of a stable workforce is a significant problem with which U.S. shipyards must deal. Not only is this true of skilled labor but it is true of engineering, computer programmers, and middle management. Employees make career decisions on the basis of opportunity which is measured both by near-term compensation and benefits and long-term promise.

Shipbuilding with declining markets and faced with a conclusion by the Administration that it is an unimportant industry, cannot offer long-term prospects to skilled labor, engineers or managers.

A stable shipbuilding program is essential. We believe that in addition to naval programs, our nation must retain a capability to build new commercial vessels.

Question. A recent statement attributed to the President of the Association of West European Shipbuilders said: "Far Eastern (yards) and some in Europe today are quoting shipbuilding prices anywhere from 10 percent to 60 percent below cost just to get whatever there is out there in the way of a market. And their governments, through a vast array of direct and indirect subsidies, are indemnifying them against any loss."

Has our CDS program ever provided subsidy on this scale? Or, does S–125, even if it were amended to raise the subsidy rate to 62 percent, approach this level?

Answer. The CDS program has over the years been limited by statute. The limit today is 50 percent of shipyard selling price. CDS is fixed as the difference between domestic selling price and foreign building cost based on a selected building geographical center. Today, the Far East dominates the world shipbuilding market. Inevitably, selling price in foreign yards becomes the real base for CDS determination. This should be the test if capital cost parity is the objective.

MarAd has ruled that, even if an owner were prepared to pay the difference in cost, they cannot grant CDS if the amount required exceeds 50 percent of U.S. selling price. An increase of the limit to 62 percent would reduce the magnitude of the problem. However, the amount of CDS granted is only one element of the owner's need for parity.

The 1936 Act bases support of ship operators and shipbuilders on the concept of parity with foreign competitors. Until all elements of parity are achieved, the objectives of the Act will not be met.

We applaud the concept of CDS and an increase in the percentage limits. However, we do not believe that this alone will cause vessels to be purchased.

Question. In the event our commercial shipyard repair facilities are substantially reduced, both our international fleet and our Jones Act fleet would be forced to rely on foreign yards for much of their repair work.

Wouldn't this be time-consuming and expensive? For example, if repair facilities on the West Coast were scarce, where would Matson ships go?

And, if our fleet had to rely on foreign repair yards, couldn't those countries use this fact to pressure the U.S.? In other words, if a country had a diplomatic differ-

ence with the U.S., wouldn't it be a simple matter for it to make its repair facilities unavailable to U.S. vessels, under one pretext or another?

Answer. Commercial shiprepair facilities and capability are an essential part of our commerce and form a vital ingredient of defense mobilization plans. Loss of West Coast facilities which serve the U.S.—Hawaii and Alaskan fleets—would make repair extremely expensive since vessels would go out of service and steam to the Far East. Lack of facilities for emergency repairs would be even more disastrous.

Ship repair done abroad can be controlled by the host country. They can refuse to do the work or even worse could take in the vessel or vessels and effectively hold them captive. Simple failure to complete the job on a disabled vessel would be sufficient.

Question. Under the present law, the CDS rate is 50 percent. In many instances, the differential between U.S. and foreign building prices now exeeds this statutory subsidy rate. Thus, "parity" is not achieved. If CDS were available, and the subsidy rate were raised to 62 percent, would "parity" be achieved?

Answer. Parity includes: (1) legal parity, (2) access to cargo, (3) vessel capital cost parity, (4) vessel operation cost parity, (5) tax parity, and (6) financing parity.

Of these, legal parity and tax parity are generally available to operators as a result of the Economic Recovery Act of 1981 and the pending anti-trust reform.

CDS is a method for treating capital cost parity. In the turbulent world of shipbuilding today, where yards are desperate for orders, it is impossible to determine a special number which would achieve parity. 62 percent is clearly better than 50 percent. Other factors, such as financing costs, may be more important.

Of highest priority is the need to achieve the movement of cargoes on U.S.-flag vessels. Cargoes create vessel demand which in turn creates shipbuilding opportunity. Today, we know of no owners who need additional vessels because of cargo-created demand.

Question. According to MarAd, only 2 replacement obligations for liner vessels are due to be contracted in fiscal year 1984. However, MarAd also says that if a "build foreign" provision were enacted, "some replacement vessels required to be contracted in 1985–87 might be ordered from foreign yards in advance."

Is there any reason why these "advance orders" must be placed this year? What would be the disadvantage if these "advance orders were delayed another year, during which time Congress could legislate our shipbuilding program for operators who went to receive operating subsidy? Or, if we fail to act in that time, we could always enact a "temporary build foreign" program as we did once before.

If we enact a "build foreign" program now without due consideration, we will virtually assure that the replacement vessels due in 1985–1987 will be built foreign, and contracted in advance of 1985 as a hedge against Congress changing its mind and repealing the build foreign legislation it would enact now.

Answer. We believe that the Administration has concluded that no further commercial shipbuilding is desirable or necessary. This included both new construction of international trading vessels and ultimately Jones Act vessels.

The build foreign proposals are supported by the claim that "we must get the ships built." This is clearly part of the strategy to write off the domestic shipbuilding industry.

The previous limited authority granted for build foreign has not "gotten the ships built" in spite of MarAd's claims. We believe that no build foreign need exists at present. The national security implications of the build foreign proposals have been ignored. This is a grave error. The entire issue must be carefully considered and answers developed which treat the real problems of both shipowners and shipbuilders. Our testimony is quite specific concerning this matter.

Question. How many contracts for merchant vessels (unsubsidized) were placed in U.S. yards last year? So far this year?

Over the past two years, has the commercial ship repair market for U.S. yards increased or decreased?

Answer. No subsidized contracts were placed in 1982. Three contracts were placed for U.S.-flag vessels, none of which was for international nor general trade. This year, no contracts have been placed and none are expected.

The ship repair market is in a serious state of decline. Total tonnage movements are down, fewer vessels are sailing, and excess tonnage enters the markets to replace vessels needing repair which go to layup.

Further, Navy repair and overhaul has not increased although the number of yards which must rely upon this business to exist has increased sharply.

The overall state of ship repair is unhealthy. If the Administration's initiative to repeal the ad valorem tariff succeeds, the ability of the ship repair industry becomes even more tenuous.

This is not to say that we do not understand the problems of U.S.-flag operators. However, national priorities must be fixed. National objectives must be fixed. Only then can our nation properly undertake the development of meaningful maritime policy.

Senator STEVENS. Thank you very much, Mr. Rice.

We now have my good friend, Charlie Hiltzheimer. Good morning.

STATEMENT OF CHARLES HILTZHEIMER, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, SEA-LAND INDUSTRIES INVESTMENTS, INC.

Mr. HILTZHEIMER. Good morning, Mr. Chairman.

In the interest of time, I will comment briefly on Sea-Land's views regarding the key provisions of S. 1038 and, Mr. Chairman, I would request that Sea-Land be permitted to submit its formal and final statement for the record within the next few days, giving us a few days' time to adequately prepare our comments on these important issues.

Senator STEVENS. All right. We will keep the record open for a 10-day period. And all statements that have been presented by witnesses will be printed in the record in full. The attachments will be looked at by the staff to see whether they are excessive, but normally we will print them all.

Mr. HILTZHEIMER. Thank you.

We are very grateful for the perseverance and leadership demonstrated by this committee in winning Senate passage of S. 47 on March 1, 1983. We believe that was a major step in the right direction.

As a fundamental business principle, U.S.-flag operators must achieve reasonable cost parity with their principal foreign competitors in both capital asset costs and in operating costs. Otherwise, lack of economic cost competitiveness will result in continued economic failure for U.S.-flag companies.

In order for the U.S.-flag merchant fleet to improve its cost competitiveness, ship owners must be free to purchase the most competitive vessel in terms of vessel cost, technology, quality, and delivery schedule. It is an undisputed fact—regretfully I say this—that cost competitive vessels can only be acquired from foreign builders today.

This is because of their lower costs, approximately two-thirds lower, probably two-thirds of the building time required, better financing, and better technology. Sea-Land has in fact acquired new vessels from foreign yards at world competitive costs because we are not subsidized and are therefore free to do so.

This right to build foreign is the only remaining significant incentive for not being subsidized. We recognize the economic need for other American operators to build in foreign yards and use their CCF for the purpose in order to achieve vessel cost competitiveness. The Nation cannot expect our privately owned and operated maritime companies to survive operating higher cost vessels than their competition.

Sea-Land has always stood on its own feet and carried the full burden of U.S. crew costs, about $2.5 million per ship per year dif-

ferential. Our Government subsidizes seven other U.S. liner companies in foreign commerce for the same cost differentials.

Sea-Land therefore has an operating cost disadvantage in comparison with its subsidized competitors. If we do not get the right to spend our CCF in foreign shipyards while subsidized companies enjoy the cost advantage of foreign built ships coupled with ODS, Sea-Land would have a worsening cost disadvantage than we have today.

We do not believe that the members of this committee nor the Congress would intentionally penalize our company for never having taken subsidies. We could argue that all U.S.-flag liner companies really need to modernize their fleets, and soon, if they are to survive, let alone prosper. We know that to be true, and we calculate that at least 100 liner vessels need to be replaced because they are either too old, fuel inefficient, too small, or a combination of all three.

This lack of cost competitiveness requires that new, larger cost-efficient vessels be built in foreign yards. There is no other alternative save additional funds in CDS, with a substantial raising of the parity level. We do not object to CCF funds being utilized for foreign-built vessels as a means of financial assistance to an important industry that is not equipped to compete.

We can categorically state that it is essential in our view that Sea-Land be permitted to use its CCS funds for foreign building, because there is no sensible alternative except to pay the tax and take out the funds.

Additionally, if the subsidized companies are going to have authority to build abroad, utilizing their CCF funds or not, we would question the justification for continued ODS payments on their new foreign-built, cost-efficient vessels. We would therefore qualify our support for section 101 to amend the 1936 act to provide authority for subsidized U.S.-flag operators to construct or acquire ships outside the United States and still be eligible to receive operating differential subsidies.

Our reservation focuses on the real and continuing need for ODF payments on modern, cost-efficient, foreign-built vessels. We do support section 102 of the bill, that would amend section 901 of the 1936 act to provide immediate eligibility for certain U.S.-flag ships constructed or acquired abroad for the carriage of Government impelled cargoes.

We support section 201 of the bill that would amend section 607 of the 1936 act to permit U.S.-flag ship operators to use existing and newly deposited tax deferred moneys in CCF funds to construct or acquire foreign-built vessels.

We also propose that the act possibly be amended in such manner that insures equal treatment for nonsubsidized companies.

We also strongly support section 203 of the bill repealing section 466 of the Tariff Act of 1930. There is certainly no valid justification for a duty penalizing U.S.-flag operators when they maintain and repair their ships abroad. The Maritime Administration phased out payment of operating subsidy for ship repairs years ago.

While we have no objection to reinstating a subsidy for ship repairs, we would suggest that it would be more equitable to move this new repair subsidy to the CDS provision of the 1936 act, and

make the repair subsidy payable directly to the U.S. ship repair facilities.

The repair subsidy should be payable to the yard to compensate for the higher U.S. cost of domestic ship repair for all U.S.-flag ships engaged in foreign commerce, whether they receive operating subsidy or not.

We do not support section 103 of the bill. It would amend the Merchant Marine Act of 1936 to permit U.S.-flag shipping owned by foreign interests to use promotional programs such as carriage of military cargoes. It seems to be based on a theory that there should be no limits on foreign financial control of U.S.-flag vessels in foreign commerce.

We do not think this proposal has been well thought out. It raises questions of the security of national defense information and control of U.S.-flag shipping in the event of emergencies. The amendment is purported to retain U.S. management control, but we fail to see where or how that important goal is accomplished. The real world truth is that financial control is the real control.

The proposal could create a reverse effective control problem. Just as our Government expects foreign-flag vessels owned by Americans to be available to the United States in time of emergency, foreign investors in U.S.-flag shipping are likely to be placed under like requirements by their own governments if under these conditions both friendly and unfriendly governments could issue instructions as to the disposition of U.S.-flag vessels in time of national or international emergencies.

Another risk would be that a foreign investor's own government might direct that no shipping assets owned by its nationals be used to carry cargo to countries supported under U.S. foreign aid policies.

We urge the subcommittee to defer further considerations of section 103 of the bill until the proposal can be more carefully examined. Retention of this section may in our opinion actually discourage capital investment in the fleet by U.S. investors.

Now, I would be glad to answer questions.

Senator STEVENS. Thank you very much.

I think I can speak for the committee in saying that we agree with you in regard to that, the incentives for further foreign equalization with our domestic policies. You are the only major U.S. liner company that gets neither the ODS or the CDS. So I think we will be extremely interested in your final statement.

As I told my friend here, unless I am hearing wrong, I think I heard you articulate a slightly different policy this morning than in the past. I will be very interested to see what your thoughts are.

Thank you very much.

Senator Inouye?

Senator INOUYE. Thank you.

I recall that upon the sale of the SL–7's, you announced plans to spend those funds in American shipyards. Is that still your intention?

Mr. HILTZHEIMER. We did announce that we would build U.S. ships with the proceeds of the capital construction fund because at the time and still currently it is the law that any capital construc-

tion funds must be spent in U.S. yards, so obviously we did agree to that.

We also envisioned a program for construction of U.S.-built tanker vessels that was subsequently frustrated by the Government, and in anticipation of that question today, I have prepared a memorandum which I will be happy to give you which goes into the full background and speaks to the spirit of the commitments that we made and fulfilled.

Senator INOUYE. I will ask that that memo be made a part of the record.

I believe I heard you correctly, but just for clarification, would you support a build foreign provision regardless of whether it is accompanied by authorization to use the CCF funds for that purpose?

Mr. HILTZHEIMER. We would have a conflict in this sense, Senator. Sea-Land, as I stated earlier, enjoys the freedom to build its ships at world competitive prices wherever that may be. We enjoy that privilege, if you would call it that, and we consider it such, because we are not subsidized.

Now, the other carriers have the same right. If they want to get off subsidy, they can enjoy the same privilege, to build anywhere in the world. But many of those companies are not able to relinquish the subsidy payments. We do not object to the other carriers having the right to build in foreign yards because we are fully convinced that they must remodernize their fleets. Otherwise, they are not going to be able to compete and survive.

However, if the other companies, subsidized companies, were allowed to build foreign and continue to get ODS and CCF was not granted to either subsidized or nonsubsidized lines, Sea-Land would be put at a great disadvantage, and the last remaining incentive that we had to be nonsubsidized would have been removed and given to the subsidized lines.

So what we are saying simply is that we think there is a justification to consider allowing subsidized carriers to build foreign, but we insist that Sea-Land be given the right to use its CCF to build foreign because we do not take subsidy and we have no other use for the funds.

Senator INOUYE. Are you a member of the National Maritime Industry Advisory Board?

Mr. HILTZHEIMER. Yes, sir.

Senator INOUYE. As a member of this board, did the administration submit to you the proposed bill for your comments?

Mr. HILTZHEIMER. I am not certain, Senator Inouye, if I received it from the administration for comments, but I did receive it from the administration.

Senator INOUYE. Has the board met on this measure?

Mr. HILTZHEIMER. Not to my knowledge.

Senator INOUYE. Thank you very much. I have a few other questions I would like to submit to you for your response, sir.

Senator TRIBLE. Mr. Hiltzheimer, let me welcome you today. I would like to pursue the matter raised by Senator Inouye about the moneys received for the SL-7's. I was directly involved in that proposition as a member of the Armed Services Committee and the Sea Power Subcommittee, and at the time we were considering the

request that those ships be purchased, you wrote the Chairman of the Armed Services Committee the following letter.

It is dated July 25, 1980. "Dear Mr. Chairman," to Melvin Price:

> This letter is being written to you in connection with the defense authorization bills that are now being considered in conference for fiscal year 1981. Included in the Senate proposal is $285 million for the acquisition of eight SL-7 container ships and spare parts from Sea-Land Service, Inc.
>
> So that there can be no doubt, please be advised that if this money is so appropriated the funds will be immediately deposited in a capital construction fund with the United States Department of Commerce will be committed, both the acquisition price and interest, for the construction of American flag vessels in U.S. shipyards.
>
> Sincerely, Charles Hiltzheimer.

The meaning of that letter was very clear to me as a member of the Armed Services Committee, to the conferees, and it was in large part as a result of that letter that the sale was approved.

I am troubled by your lack of response to my colleague from Hawaii. In all fairness, I should say I have not seen your memo, but your answer to his question was less than specific, I might say, and I would like you to answer his question directly. Will Sea-Land abide by the very clear statement of that letter and buy American ships with those moneys?

Mr. HILTZHEIMER. Senator Trible, first, in agreeing to establish a CCF with the proceeds of the SL-7 sales, Sea-Land recognized that under section 607 of the 1936 act, as had been applied, and it still does, withdrawals for vessel construction could be made without substantial tax consequences and interest penalties only if the money was expended domestically.

Therefore, I would not have contemplated any withdrawal for construction other than for domestic building.

Second, the contemplated domestic use of the fund was integrally linked to the construction of tankers for charter to the military sea-lift command with MSC encouragement, as replacement for five obsolete T-5 tankers then in the MSC nucleus fleet.

This intended building program was well known to all concerned from the outset, and Sea-Land adhered unswervingly to that objective until the Government itself effectively precluded such use of the funds in question.

Now, to further answer your question, today there is no CDS money available and no level of CDS that would allow us to build a container ship with any degree of competitive parity, and so the funds are sitting and we are completely frustrated, as I mentioned earlier, with no visible use of the funds.

Senator TRIBLE. You have got a problem. There is no doubt about it. But the representation that was made to the U.S. Congress was a very clear one, and it was on that basis that the U.S. Congress acted, and I would suggest to you that it would be a very serious mistake to believe that because economic conditions have changed and business opportunities have changed, that those moneys can or should be expended in any other way than you have already clearly set forth in your letter.

Now, we are not at that point, and I would hope that that result can be avoided. I want to make a part of the record at this point, Mr. Chairman, a copy of Mr. Hiltzheimer's letter to the Armed Services Committee dated July 25. I think it is quite appropriate.

Senator STEVENS. Is that the one you just read?

Senator TRIBLE. Yes.

Senator STEVENS. Let us just print the full letter where you read part of it.

Senator TRIBLE. All right, sir. I applaud your leadership, and the outstanding performance of your company, but this is a matter of concern, and I think it is something that needs to be seriously addressed. I thank you for your testimony here today.

Senator STEVENS. Senator Inouye, any further questions?

Senator INOUYE. I would just ask unanimous consent that the Sea-Land memo be made part of the record.

Senator STEVENS. Very well. As I understand, there is going to be a revised statement, too.

[The statements and material referred to follow:]

STATEMENT OF CHARLES I. HILTZHEIMER, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, SEA-LAND INDUSTRIES INVESTMENTS, INC.

I am Charles I. Hiltzheimer, Chairman and Chief Executive Officer of Sea-Land Industries Investments, Inc. Our liner subsidiary, Sea-Land Service, Inc. is the largest container transportation system in the world and is the only major U.S.-flag liner shipping company not participating in the government's Operating Differential Subsidy program.

It is my privilege to present the views of Sea-Land in support of the purposes of the Administration's promotional program and to suggest some changes we believe will better achieve those purposes.

As we have recognized for several years, maritime policy reforms should create a climate in which all American carriers will have the opportunity to engage in foreign commerce on a fair and cost competitive basis. Senate passage of S. 47 on March 1, 1983 was a major step in the right direction. We are very grateful for the perseverance and leadership demonstrated by this Committee in winning Senate passage of S. 47.

We believe it is essential that the Senate now address the long overdue reform of other maritime statutes.

The 1936 Act recognized the critical importance of cost parity, but as it exists today, the Act does not provide the means for all U.S.-flag operators to achieve parity in cost of vessel construction.

As a fundamental business principle, U.S.-flag operators must achieve reasonable cost parity with their principal foreign competitors in both capital asset costs and operating costs. Otherwise, lack of economic cost competitiveness will result in continued economic failure of U.S.-flag companies. With that as background, I will now address the major elements of S. 1038 noting the suggested revisions which we have appended to by prepared statement.

Although new generation vessels employing the latest technologies achieve efficiencies which reduce the operating cost gap in comparison to older vessels, foreign competitors are adopting those same technologies and realize the same operating cost efficiencies.

In order for the U.S.-flag merchant fleet to improve its cost competitiveness, shipowners must be free to purchase the most competitive vessel in terms of vessel cost, technology, quality and delivery schedule.

It is an undisputed fact that competitive cost vessels can only be acquired from foreign builders. Sea-Land does in fact acquire new vessels from foreign yards at world competitive costs because we are nonsubsidized. This right to build foreign is the only significant incentive for remaining nonsubsidized.

We recognize the economic need for American operators to build in foreign yards, and use their CCF for the purpose, in order to achieve vessel cost competitiveness. We do not object to that being authorized for subsidized operators as well as for unsubsidized operators.

However, if Congress allows ODS operators to build abroad, only without use of Capital Construction Funds then in fundamental fairness it must allow nonsubsidized operators to use their Capital Construction Funds to build new vessels abroad. Otherwise, a gross injustice will result. Sea-Land has always stood on its own feet and carried the full burden of U.S. crew costs (about $2.5 million per ship per year differential). The Government subsidizes all other U.S. liner companies in foreign commerce for these cost differential. Sea-Land, therefore, has an operating cost dis-

advantage in comparison to its subsidized competitors. If we do not get the right to spend our CCF in foreign shipyards we will then also have a capital cost disadvantage.

We urge that the amendment of Section 615 fo the 1936 Act be revised so that *all* U.S.-flag liner ships built abroad are treated on an even-handed basis, whether they receive subsidy or not.

Section 101 of the bill would amend the 1936 Act to provide authority for subsidized U.S.-flaf ship operators to construct or acquire ships outside the United States and still be eligible to receive operating differential subsidies (ODS).

Section 102 of the bill would amend Section 901(b)(1) of the 1936 Act to provide immediate eligibility for certain U.S.-flag ships constructed or acquired abroad for the carriage of Government-impelled cargoes under Section 901(b)(1) of the 1936 Act.

Section 210 of the bill would amend Section 607 the 1936 Act to permit U.S.-flag ship operators to use existing and newly deposited tax-deferred monies in Capital Construction funds (CCF) to construct or acquire foreign-built vessels.

We strongly support the objectives of these three sections of the bill. However, we also propose that the Act be amended in such manner that insures equal treatment for non-subsidized companies. Our substitute language will provide parity of treatment for all foreign-built, U.S.-flag ships; i.e. the amendments would not be limited to ships built or acquired by carriers receiving or asking for operating subsidy.

We also strongly support Section 203 of the bill repealing Section 466 of the Tariff Act of 1930. There is certainly no valid justification for a duty penalizing U.S.-flag ship operators when they maintain and repair their ships abroad if we want our Merchant Marine to be cost competitive.

The Maritime Administration phased out payment of operating subsidy for ship repairs years ago. While we have no objection reinstating a subsidy on ship repairs, we suggest it would be more equitable to move this new repair subsidy to the CDS provision, of the 1936 Act and make the repair subsidy payable directly to the U.S. ship repair facility. The repair subsidy should be payable to the yard to compensate for the higher U.S. cost of domestic ship repair of all U.S.-flag ships engaged in foreign commerce, whether they receive operating subsidy or not.

By broadening the scope of U.S.-flag ships for which repair subsidy would be payable to the yards, a larger number of U.S. Ship repair facilities would be strengthened. Funding for such repair subsidy expenditures could be made available from Construction Differential Subsidy funding that is not likely to be used for new liner vessel construction with the 50 percent maximum and longer delivery periods required in U.S. shipyards.

Section 103 of the bill is the one Administration proposal that we do not strongly support. It would amend the Merchant Marine Act, 1936, to permit U.S.-flag shipping, owned by foreign interests, to use promotional programs such as carriage of military cargoes. It seems to be based on a theory that there should be no limits on foreign financial control of U.S.-flag vessels in foreign commerce.

We do not think this proposal has been thought out. It raises questions of the security of national defense information and control of U.S.-flag shipping in the event of emergencies. The amendment is purported to "retain U.S. management control," but we fail to see where or how that important goal is accomplished. The real world truth is that financial control is the real control.

The proposal could create a reverse "effective control" problem. Just as our Government expects foreign-flag vessels owned by Americans to be available to the United States in time of emergency, foreign investors in U.S.-flag shipping are likely to be placed under like requirements by their own governments. If under these conditions both friendly and potentially unfriendly governments could issue instructions as to the disposition of U.S.-flag vessels in time of national or international emergencies.

Another risk would be that a foreign investor's own government might direct that no shipping assets owned by its nationals be used to carry cargo to countries supported under U.S. foreign aid policies.

We do not agree that the existing 49 percent limitation of foreign ownership in U.S. corporations operating U.S.-flag vessels in the foreign commerce of the United States is a significant cause of less investment in the U.S.-flag fleet. When S. 47 and the other promotional reforms proposed in this bill are enacted, considerable new domestic capital investment in the U.S.-flag liner fleet can be expected.

We urge the Subcommittee to defer consideration of Section 103 of the bill until the proposal can be more carefully examined. Retention of this section may, in our opinion, actually discourage capital investment in the fleet by U.S. investors.

Mr. Chairman and Members of the Subcommittee, this concludes my prepared statement. Thank you for the opportunity to appear in support of rejuvenation and

modernization of U.S. shipping statutes. I shall be pleased to answer any questions which you may have.

S. 1038

A BILL To amend the Merchant Marine Act, 1936, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Merchant Marine Act of 1983".

TITLE I

SEC. 101. Section 615 of the Merchant Marine Act, 1936 (46 U.S.C. 1185), is amended as follows:

(a) Strike the "(a)" immediately following the section number.

(b) Strike the first sentence and insert the words "The Secretary of Transportation may authorize an operator receiving or applying for operating-differential subsidy under this title to construct or reconstruct its vessels in a foreign shipyard, or acquire such vessels outside the United States. No such authorization shall be given by the Secretary of Transportation unless the Secretary determines that (1) the vessel is over five thousand deadweight tons; and (2) the vessel is suitable for use by the United States for national defense or military purposes in time of war or national emergency.".

(c) In the second sentence, strike the word "modified" and insert in lieu thereof the word "acquired", and insert after the word "section" the first time it appears, the words "or section 1610 of Public Law 97-35 [, and documented under the laws of the United States".] *or otherwise constructed, reconstructed or acquired outside of the United States, and documented under the laws of the United States.*".

(d) Strike subsection (b).

SEC. 102. Section 901(b)(1) of the Merchant Marine Act, 1936, as amended (46 U.S.C. 1241(b)(1)), is amended by *inserting after "such vessels" the words "owned by a citizen of the United States" and by* substituting the following for the last sentence: "For the purpose of this section, the term 'privately owned United States-flag commercial vessels' shall not be deemed to include any vessel constructed outside the United States that is registered under the United States flag subsequent to the date of enactment of this Act, (1) unless the Secretary of Transportation finds such vessel to be not more than five years of age on the date of registry under the United States flag, or (2) unless the Secretary of Transportation finds such vessel to be more than five years of age but less than ten years of age on the date of registry under the United States flag, and upon consultation with the Secretary of Defense, determines that the particular vessel is necessary for the security of the national defense, or (3) if otherwise more than five years of age on the date of registry under the United States flag, until such vessel shall have been documented under the laws of the United States for a period of three years.".

SEC. 103. Section 905(c) of the Merchant Marine Act, 1936 (46 U.S.C. 1244(c)) is amended to read as follows:

"(c)(1) The words 'citizen of the United States' shall not include a corporation, partnership, or association unless it meets the requirements of this subsection.".

SUPPLEMENTAL STATEMENT OF CHARLES I. HILTZHEIMER, CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER, SEA-LAND INDUSTRIES, INC.

Mr. Chairman, I am Charles I. Hiltzheimer, Chairman and Chief Executive Officer of Sea-Land Industries, Inc. Sea-Land Service, Inc., is the largest containership operator in the world and is the only major U.S.-flag carrier of general cargo not participating in the government's operating subsidy program. It was a privilege to appear before this Subcommittee as you heard testimony on S. 1038 and S. 125; two bills which offer the framework for developing a promotional policy which will permit revitatization of our Merchant Marine. I am grateful for the opportunity to submit this formal statement in elaboration of my oral testimony.

Two pending legislative initiatives are critical to the future competitive health of the general cargo segment of the U.S. Merchant Marine: regulatory reform, which the Senate has already acted upon with passage on March 1 of S. 47, the Shipping Act of 1983; and "promotional" reform, which is the subject of S. 1038.

Passage of S. 47, the Shipping Act of 1983, was due to the efforts of this Subcommittee and was made possible by the response of carriers and shippers to the recom-

mendation of Senator Gorton, when he was your chairman, that we all set aside our differences an come-up with a common proposal for legislation.

I think that success of the current effort to enact promotional legislation will also require that all think first of what will best serve the nation's need for a healthy Merchant Marine rather than just promote their own narrow interests.

It is imperative that any promotional bill which is reported out by the Subcommittee be one which fairly and equally creates opportunity for subsidized and unsubsidized carriers to achieve reasonable ship acquisition cost parity with foreign competitors so as to be able to rebuild their fleets and expand the capabilities of our Merchant Marine. Otherwise, the present cost disadvantage of U.S. flag operators will grow and lead to further contraction of their numbers; and with it a serious erosion of the nation's "fourth arm of defense." In 1951, there were 53 U.S.-flag general cargo liner operators. Today there are 9 in service, and the economic viability of several of these is presently most precarious.

The fundamental requisite for a healthy Merchant Marine is a competitive Merchant Marine. The international shipping public seeks the best buy for its shipping dollar. Buyers of transportation services will not subsidize inefficiency by paying higher transportation rates than are generally available in the marketplace. If two or more carriers offer the service that is needed, "Price moves the cargo" and price is directly affected by cost of providing the service.

I. THE NEED FOR COST PARITY

The greatest need of the American Merchant Marine is to achieve cost parity with the foreign competition. Without opportunity for such parity, American carriers cannot attain the efficiency and profitability which they must have to attract additional capital for new vessel programs and to price competitively.

Vessels built in United States shipyards presently cost three times what they would cost in a foreign yard, are not delivered as quickly, and lack the efficiency of the latest diesel technology available only from foreign sources. Vessels operated under U.S. flag have crew costs ranging from 1.75 to more than 2 million dollars per vessel per year higher than similar foreign-flag vessels.

On June 15th of last year I presented a talk to the Joint Maritime Congress. It was entitled "Improving the Operating Efficiency of the U.S. Flag Merchant Marine". That talk was reproduced in the July/August 1982 issue of Transportation 2000 magazine and a copy is attached to this statement.[1] There are several points which bear repeating:

Our merchant fleet shrank from 1,300 vessels in 1951 to 580 in 1981—with only about 200 actively engaged in our foreign commerce in the latter year.

50 percent of our liner fleet is older than 15 years.

About 100 liner vessels will have to be replaced in the Eighties because of age or inefficiency.

The average U.S. liner fleet cost of moving one 40-foot container one mile ("space mile cost") is in the range of 12 to 15 cents.

Today's foreign flag competition has an average space mile cost in the range of 7 to 10 cents.

Tomorrow's competitive cost is estimated to be 5 to 7 cents.

The 100 vessels which must be replaced can be replaced by 40 to 45 vessels, more competitive, at a total estimated cost of about $1.8 billion in today's dollars if built in foreign yards. The operating efficiencies of those vessels will produce operating cost savings of $350 million per year.

If a liner market share of 40 percent is to be achieved by U.S.-flag vessels, an additional 60 percent in carrying capacity will be needed. That will require a further 35 to 50 new ships, depending upon designs, at a further cost of about $2.1 billion.

Planning for normal market growth within that scenario would call for 40 to 55 more ships costing another $2.4 billion.

The total capital outlay required for such revitalization of the U.S. liner fleet would be about $6.3 billion in present day dollars.

I present the capital needs of the U.S. liner operators in the next decade in terms of what will be required for foreign-building because that is the only realistic course if we are to have competitive cost capital assets. The alternative, a Federal infusion of more than $12.5 billion in construction differential subsidy (CDS) to attain cost parity in vessel construction, is clearly beyond even speculative contemplation.

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[1] Retained in committee files.

The far more favorable delivery schedules, financing terms and propulsion technology available in foreign yards are, I believe, factors that would facilitate raising the needed $6.3 billion in private capital for fleet revitalization.

On the other hand, there is grave doubt whether, even if the Government were prepared to provide the full capital-cost differential in the form of CDS, the sophisticated investors to whom carriers must look for vessel financing would find construction in U.S. yards attractive in relation to anticipated return. Thus, the question is really whether there will be any meaningful building program at all for U.S.-flag operators in the foreign trade if use of CCF for foreign-source construction is not authorized.

S. 1038 would address this problem of cost-competitiveness for the U.S.-flag merchant fleet in a constructive way—not with incentive-sapping government operating subsidies that have exacerbated the problem in the past, but with a program attuned to market-place realities where business decisions based on commercial considerations would be encouraged.

First and foremost of these constructive approaches is the authority in Section 101 of the bill for U.S.-flag operators to obtain U.S.-flag vessels for their fleet abroad (whether or not they presently enjoy operating-differential subsidy for some or all of their sailings) and for vessels so acquired and U.S.-documented to be treated under the Merchant Marine Act, 1936 as if they had been U.S.-built, coupled with the authority in section 201 to use Capital Construction Fund (CCF) monies to accomplish that construction and acquisition abroad.

II. THE NEED TO BUILD ABROAD

Growing numbers of carriers are recognizing that subsidy does not provide real cost parity and that Congress cannot be expected to increase appropriations to the levels that would achieve true parity. Carriers are also beginning to realize that the price of subsidy is restrictions upon management prerogatives and decision making and execution. Those restrictions directly inhibit the efficiency that must be achieved to servive in an increasingly competitive international market.

In order for the U.S.-flag merchant fleet to improve its cost competitiveness, shipowners must be free to obtain the most competitive vessel in terms of cost, technology, quality, and delivery schedule. It is an undisputed fact that, today, cost-competitive vessels are only available abroad. This is because foreign yards are able to under-quote U.S. yards in cost and delivery time by a factor of about two-thirds, and offer better financing (for example, an interest rate of 8–9 percent for 80 percent of the purchase price over 10 years) and better technology (for example, slow-speed diesel propulsion). These same considerations also make it more economical to buy and reflag existing foreign ships that to build or buy in the United States.

Sea-Land is proud of the fact that it has stood on its own feet all of its commercial life and has never applied for operating differential subsidy. We are equally proud that from 1968 through 1981 we were able to build and place into service 24 U.S.-flag containerships without any assistance from the Government. We invested $1,166,700,000 in private capital in those ships and their containers.

In the same period federal expenditures for construction differential subsidy for the entire Merchant Marine (liner, bulk and special purpose construction) totalled approximately $2,318,000,000.

Since 1936 the Government has spent $6,158,875,522 for ODS and $3,332,255,535 of CDS.

No carrier has been compelled by government orders to accept subsidy. Rather, they have freely abdicated the right to control their own destinies and sought shelter from the realities of the marketplace in favor of the illusory siren comfort of operating differential subsidy—in return for which they contracted to build their replacement ships in U.S. yards with little regard for economics of price or efficiency so long as the government paid a construction differential subsidy, extended Title XI financing guarantees and provided more ODS on those new vessels.

One of the reasons that Sea-Land chose to stand apart from the ODS program was to retain control of its own destiny. Being unsubsidized, we could invite both domestic and foreign shipyards to bid on our new construction and have been free to exercise independent business judgment in the best interest of our stockholders to select the yard which offered the best product, the best price and the best delivery schedule. With every new building program we found that those economic factors compelled selection of foreign yards. That freedom has been a major incentive for Sea-Land not to feed on subsidy at the public trough.

We understand the need of Sea-Land's subsidized competitors to gain the right to build new vessels abroad. We believe that they should be given the right under a

new promotional policy that fairly and equally creates opportunities for subsidized and unsubsidized carriers.

If ODS-subsidized operators are accorded the privilege of realizing asset-cost parity by obtaining vessels abroad, they should not be entitled to the operating-cost advantage of ODS for those new vessels, just as Sea-Land is not entitled to ODS for the U.S.-flag vessels it has obtained and will obtain abroad.

Sea-Land has always carried the full burden of its U.S. crew costs in competing with foreign-flag operators in the U.S. ocean trades, a differential of about $2.5 million per ship per year, notwithstanding that the Government subsidizes eight U.S. liner companies in foreign commerce for their operating cost differential. The consequence is that Sea-Land has an operating cost disadvantage both in relation to its foreign-flag competitors and in comparison with its subsidized U.S.-flag competitors. We obviously cannot make up that difference by charging higher freight rates than our subsidized competitors or we would not get much cargo.

We do not believe that this Subcommittee or the Congress would intentionally penalize Sea-Land for never having taken subsidy. What we particularly ask is that in creating new freedom for other American carriers Congress not, as a by-product, give them greater freedom than, or unfair advantage over, unsubsidized Sea-Land.

If Congress permits subsidized carriers to build abroad and thus achieve vessel capital cost parity with Sea-Land, it ought to recognize that fairness calls for a requirement that such new foreign-built vessels be operated without ODS. Otherwise, Congress will have given those who receive ODS over the years a major and unfair cost advantage over American carriers, such as Sea-Land, who operate without subsidy. Equity dictates that carriers who wish to remain on ODS be allowed to do so only with their U.S. built ships.

In light of the need for equity of which I have spoken I do have a reservation concerning section 101 of S. 1038. It would not "grandfather" foreign-origin vessels in the U.S.-flag fleet other than those obtained abroad by subsidized operators pursuant to Section 1610 of the Omnibus Budget Reconciliation and Reform Act of 1981. Conceptually, if what Section 101 is designed to accomplish is to be realized fully, a "grandfather" clause such as was included in S. 2336 of the 97th Congress is essential: i.e.,

". . . Vessels constructed, reconstructed or acquired pursuant to this section or section 1610 of Public Law 97–35, *or otherwise constructed, reconstructed or acquired outside of the United States,* and documented under the laws of the United States shall be deemed to have been United States built for the purposes of this title, section 901(b) of this Act and section 5(7) of the Port and Tanker Safety Act of 1978 (46 U.S.C. 391(a)(7))."

That provision was considered fair and reasonable by this Subcommittee, its parent Committee and the full Senate in the last Congress, and nothing has changed in the interim. Again, we do not believe that the members of this Subcommittee or the Congress would intentionally penalize Sea-Land for never having taken operating subsidies.

III. THE NEED TO USE CCF TO BUILD ABROAD

This Subcommittee must also consider how U.S.-flag carriers will fund new vessels.

Those who are on ODS have traditionally gone to the bond market with the security of Title XI guarantees, for domestic construction financing in excess of CDS, and then have paid the debt on the vessels from their capital construction funds. Whether or not Title XI financing will continue to be available for domestic construction, the subsidized carriers will need to have access to their CCF in order to build new vessels wherever the most favorable terms can be found.

It appears that most subsidized carriers are now negotiating with the Maritime Administration for "early termination" of their ODS contracts under which long-term ODS payments would be foregone in combination with a short term increase in ODS; thus creating a ready source of substantial amounts of cash. If those who participate in "early terminations" place those payments into their CCF they will face the same vessel funding problem as the other subsidized carriers and will need authority to spend the CCF for foreign construction.

If they do not place the ODS monies into a CCF, they will apparently have no obligation to utilize that newly found money for ship construction or, indeed, for any maritime purpose.

Whether or not the new-found cash is placed into a CCF, the carrier who participates in an early termination will have been provided the cash needed to fund a new construction program. That will effectively convert hundreds of millions of ODS

dollars into the equivalent of CDS spendable in foreign yards. For instance, U.S. Lines will have approximately $60 million per year of ODS for five years available for such purposes and Crowley Maritime has sought an arrangement under which it would have some $525 million available over five years.

Again, it is very important that this Subcommittee take steps to ensure fundamental fairness, and all holders of CCF's (subsidized and unsubsidized) should be authorized to make qualified withdrawals to fund vessels constructed in foreign yards. Section 201 of S. 1038 would provide that fundamental fairness, in that all U.S.-flag vessels regardless of where built would become "eligible" under section 607 of the 1936 Act and all U.S.-flag vessels operated in identified trades would become "qualified" no matter where built. Sea-Land supports the section 607 amendments contained in section 201 of S. 1038.

IV. ASSISTING DOMESTIC SHIPYARDS

Just as we recognize the needs of other carriers as well as those of Sea-Land, we also realize that American shipyards have needs which should be recognized. First, it must be admitted that they will continue to have the same need as ship operators for low cost capital equipment. Therefore, we think that they should continue to be permitted to have their own operating assets, such as floating drydocks, steel fabrication and computerized cutting systems, built or supplied by foreign producers who are lower cost and more efficient than U.S. sources. American shipowners ask only the same consideration, rather than be held hostage to the shipyards' needs.

The ideal containership for the 80's will have have a capacity on the order 1,500 forty-foot units, as speed of 16 to 20 knots, be powered by slow-speed diesel engines and carry a crew of 20 to 25 merchant mariners. To compare foreign versus domestic construction is to illustrate the problem.

	United States	Foreign
Time to complete	28–30 mos	19mos.
Cost	$120 million	$4u million.
Slow-speed diesel technology	Almost none	Highly experienced.

Therefore, the level of CDS would have to be 67 percent or more in today's market and will likely have to be higher in the future. Restoration of some CDS might permit a limited amount of ship construction in U.S. yards, if the shipbuilders can overcome their basic noncompetitiveness in terms of delivery time and propulsion technology. Later in this statement I shall propose establishment of new financial and tax incentives for U.S.-flag carriers (wherever their ships may be built) and for U.S. shipyards also. Such incentives are needed to encourage modernization of both vital mobilization resources.

V. DUTY ON FOREIGN REPAIRS

Sea-Land wholeheartedly supports section 203 of the bill, which would eliminate the 50 percent ad valorem duty on vessel repairs of a nonemergency nature performed abroad. Every action which Congress can take to create cost savings for U.S.-flag carriers will improve their competitive position. Just as there should be freedom to build ships wherever good business judgment dictates, so should there be full freedom to repair them (without regard to where they were built) wherever price and other circumstances are best.

It has never made sense to me that a U.S.-flag operator should be penalized for making repairs abroad while an American-owned flag-of-convenience ship incurs no duty on foreign repairs.

In 1971, Congress exempted fishing boats and other special-purpose vessels, such as barges, sea-going oil rigs and research ships, away from the United States for two years or more from the duty. In 1979, Congress exempted all U.S.-registry commercial aircraft in international trade from 50 percent duty on foreign equipment and repairs.

Section 203 of S. 1038 will repeal section 466 of the Tariff Act of 1930. The anachronistic purpose of this 100-year-old statute was to discourage U.S.-flag operators from turning to foreign yards for routine repair work that otherwise could be performed in U.S. yards. However, as shown in the following table, the average value of non-emergency foreign repair work performed abroad in the five-year period 1978–1982 for which duty has been collected can hardly be said to represent a sig-

nificant amount of lost business for U.S. yards although the duty added to the cost disadvantage of U.S.-flag carriers.

Year	Commercial vessel entries	Vessel repair entries	Foreign repair duties	Average repair duty per vessel repair entry
	(1)	(2)	(3)	(4)
1978	104,253	2,482	$2,237,716	$901.58
1979	110,947	2,144	2,195,672	1,024.10
1980	108,876	1,998	2,821,094	1,411.96
1981 [1]	107,848	2,124	7,490,397	3,526.55
1982 [1]	101,874	2,184	11,958,332	5,475.43
5-yr average	106,760	2,186	5,340,642	2,433.11

[1] The increase in repair duties (col. (3)) in 1981 and 1982 reflects the liquidation of a backlog of repair entries from earlier years, thus inflating the amount of duty collected. Accordingly, since the number of repair entries in each of the 5 calendar years shown remained quite constant, the best gauge of the actual level of nonemergency foreign repairs is a 5-year average of the duties paid (bearing in mind that the duties represent 50 percent of the actual expense of such repairs).

Source: Customs U.S.A., annual report 1982 pp. 32-34; Entry and Liquidation Statistics, Report AR 5401 (end of year reports) if the U.S. Customs Service.

VI. CITIZENSHIP REQUIREMENTS SHOULD NOT BE RELAXED

We oppose in the most vigorous terms section 103 of S. 1038 which would amend Section 905(c) the Merchant Marine Act, 1936 to allow U.S.-flag vessels in which a majority interest of up to 75 percent is owned by foreigners to participate in American promotional programs.

Presently, section 905(c) of the Merchant Marine Act, 1936 limits recourse to the "promotional" benefits of that Act in the foreign commerce to individual citizens of the United States or to associations, partnerships or corporations in which the "controlling interest" is owned by citizens. Section 103 of S. 1038 would discard this "controlling interest" test, and allow domestic associations, partnerships or corporations with foreign ownership of up to 75 percent access to programs that are designed to preserve and promote the U.S.-flag Merchant Marine, including the reservation of military cargoes.

Sea-Land is strongly opposed to this relaxation of the citizenship requirements. Although the amendment would continue to require management control to be vested in U.S. citizens, this is meaningless. It is naive to assume that financial control and management control can be divorced. In the real world, financial control *is* management control. It would be ironic indeed if the Soviet government or any other unfriendly foreign interest were, through majority ownership of a U.S. company having a complacent management and U.S.-flag vessels, to be eligible to carry U.S. military cargo. The though boggles the mind.

The need to enlarge the U.S.-flag fleet cannot be allowed to override solid commonsense recognition of the undeniable truth that national security requires that ownership of Merchant Marine must rest in real citizens rather than in fictional "citizens" created by statute.

I noted that in an April 8th letter, transmitting the Administration's maritime promotional legislative proposals to the Senate, Secretary of Transportation Dole said: "There are currently no U.S. ownership requirements for a U.S. corporation to operate U.S.-flag vessels in the foreign trade of the United States." It might be more correct to say that DOT's Coast Guard acts as if there are no such requirements. Congress certainly intended that there be citizenship requirements and that they be met.

In 1959, Congress amended section 37 of the Merchant Marine Act, 1920, section 2 of the Shipping Act, 1916 and section 905(c) of the Merchant Marine Act, 1936, to alter the directorship tests for corporations owning and operating U.S.-flag vessels so as to permit minority participation on boards by noncitizens. However, in not opposing the change the Treasury Department, whose Bureau of Customs then housed the vessel documentation functions, said that: ". . . the requirement for a majority stock ownership by citizens for general vessel operation . . . and the prohibition against transfer of a vessel to foreign ownership or flag without Government sanction, are persuasive arguments for removal of all citizen-director requirements." S. Rep. No. 728, 86th Cong., 1st Sess. 7 (1959).

The Report of the Senate Committee on Interstate and Foreign Commerce was most emphatic on the "controlling interest" requirement: "The net effect of the amendments cited would be to include in the definition of 'citizen of the United States' corporations (excepting those under title VI, Merchant Marine Act, 1936, as amended) [where all directors must continue to be American] which meet the stock ownership requirements of section 2 of the Shipping Act, 1916. . .

"It should be emphasized that this modification of citizenship requirements will not make possible noncitizen control of vessels documented and operating under the U.S. flag, nor will it relax in any way the citizenship requirements applying to corporations operating under an operating-differential contract with the Federal Maritime Board.

"The question of ownership of corporations is not affected to the slightest degree by the provisions of the bill." (*Id.*, S. Rep. 2.)

The House Committee on Merchant Marine and Fisheries stated: "The purpose of the bill is to change the definition of 'citizen of the United States' in section 2 of the Shipping Act, 1916, so as to include in that definition *(if, the stock ownership requirements of sec. 2 are met)* corporations organized under the laws of the United States, or any States thereof, which have some alien directors . . . The bill would also amend the documentation laws to allow vessels owned by *such* corporations to be documented." [Emphasis added.] H. Rep. No. 813, 86th Cong., 1st Sess. 2 (1959).

In light of all the foregoing, the Department of Transportation cannot rely upon the 1959 amendments to support the statement that there are no U.S. ownership requirements for the foreign trade. Moreover, the Vessel Documentation Act of 1980 was "solely directed to procedural changes" and made no substantive changes in documentation law, H.R. Rep. No. 96-428, 96th Cong., 2nd Sess. 6 (1979), and so also cannot be relied upon by DOT for its statement and erroneous application of law.

Having misinterpreted the law and applied that misinterpretation so as to permit 100% foreign ownership of corporations owning U.S-flag vessels operated in foreign trade, DOT now wants to amend the law so as to permit foreign investors, who voluntarily limit their enjoyment of that erroneous administrative interpretation of the law to a 75% controlling interest, to enjoy all of the benefits of the promotional programs of the 1936 Act.

DOT asserts that this change is necessary to attract capital needed to rebuild the U.S. Merchant Marine. But there is no reason why Congress should change the law so that foreign investors can make profits at the expense of American taxpayer appropriations for ODS, CDS or cargo preference programs.

The administrative removal of citizenship stock requirements for vessel documentation must be corrected by Congress. That DOT action and the proposed further dilution of citizenship requirements would weaken the Merchant Marine as an instrument of national policy by creating a reverse "effective control" problem.

Just as our Government expects foreign-flag vessels owned by Americans to be available to the United States in times of emergency, foreign investors in U.S.-flag shipping are likely to be placed under like requirements by their governments. Under such conditions both friendly and potentially unfriendly governments might issue instructions to their nationals either as to the disposition of U.S.-flag vessels of cargoes which the United States considers essential to its foreign policy.

DOT asserts that U.S. management of foreign-owned U.S.-flag vessels will be retained. The real world truth is that financial control is real control and that executives of the owning corporation will act in the interests of and at the direction of, the stockholders.

As the Treasury Department noted in 1959, ". . . directors normally vote the desires of the stockholders to whom they are responsible for their places on the board, whether they are citizens or aliens." S. Rep. No. 734, 86th Cong., 1st Sess. 7 (1959). There is little reason to believe that aliens controlling ownership, even if nationals of an ally, can be relied upon to believe that aliens controlling ownership, even if nationals of an ally, can be relied upon to support American national interests.

In the middle 1950's prompted by many abuses by aliens in the buying of ships under the Merchant Ship Sales Act of 1946, a Senate investigation committee chaired by Senator McClellan hald hearings on foreign ownership and control of U.S.-flag vessels. On the basis of disclosures made in those hearings and subsequent events, we can state without equivocation that nobody in the Department of Transportation, in this Subcommittee, or elsewhere, will be able to tell who really owns a U.S.-flag vessel if the controlling interest for documentation purpose is not required to be held by a citizen of the United States.

An alien can set up a Panamanian corporation owned by a Liberian corporation owned by a blind trust established in Switzerland or Lichtenstein and then use the Panamanian corporation to buy stock in the company controlling U.S.-flag ships.

The problems created by such screening devices have thwarted the efforts of even the Internal Revenue Service to establish regulations, under the Foreign Investment In United States Real Property Act (P.L. 96-499, as amended by P.L. 97-34), to compel disclosure of the actual beneficial ownership of real property located in the United States.

If meaningful disclosure cannot be obtained by IRS with it pervasive overt and covert sources, it is folly to think that it will be any less difficult to trace foreign control of U.S.-flag vessels if the principal or principals truly wish to remain hidden.

For all of those reasons, we recommend that the Subcommittee not accept DOT's recommended citizenship amendments in regard to promotional programs. We further strongly urge the Subcommittee to firmly reassert the citizenship stock requirements for documentation of vessels.

VIII. SUBSIDY ON REPAIRS AND PORT PROTECTION

I would like to briefly touch two subjects.

First, section 204 of S. 1038 is puzzling. The Maritime Administration has been actively eliminating contractual provisions for payment of ODS for ship repairs, yet this section appears to contemplate that such subsidy payments will be reinstated.

While Sea-Land has no objection to such reinstatement, it would seem more equitable to transfer repair subsidies to the CDS program, thus providing for direct payment to U.S. and Pureto Rican yards to compensate for the higher cost of domestic repair for any U.S.-flag vessel engaged in foreign commerce, whether receiving ODS or not.

Second, I have discussed both carrier and shipyard interests at length. We must not overlook American ports in the review of promotional policy. It is through U.S. ports that national defense cargo movements must be made.

A growing concern to the port community, to Sea-Land and to this Subcommittee is the trend of U.S. export and import cargoes being diverted through ports in Canada and Mexico. Such movements today circumvent Shipping Act regulation through cross border diversions and S. 205 addresses that serious problem.

Promotional policy shouldn't create incentives to encourage cross border diversions of U.S. origin and destination cargoes. We suggest that ODS not be paid for any voyage on which a vessel loads or discharges U.S. origin or destination cargoes at ports in a contiguous foreign country.

The diversion problem applies in the Atlantic, Pacific and Gulf areas of the U.S. and this suggested ODS amendment responds to a broad threat, that is becoming increasingly serious.

VIII. CREATIVELY ATTACKING THE PROBLEM OF BUILDING NEW U.S.-FLAG VESSELS

Why are the U.S. liner industry and the domestic shipbuilding industry both generally in precarious positions today? Primarily because they have been weakened by the very programs intended to help them—ODS and CDS.

ODS restricted the operating and decision-making flexibility of subsidized carriers, dulled their competitive instincts by relieving them of the obligation to face up to the harsh realities of the business, and resulted in excessive shipboard manning, work rules and wages.

CDS, which is really a subsidy for the shipyards rather than shipowners (coupled with the domestic-source ship replacement obligation placed upon ODS recipients) relieved the shipyards of need to find means to truly compete with foreign yards. Captive ship buyers and a subsidy for the inefficiencies of the U.S. yards bred further inefficiencies and lack of competitiveness. Thus, not only are most U.S. yards physically below world standards—all lack the technology to build slow-speed diesel engines, the most efficient and economical propulsion system available today.

The cycle of subsidizing inefficiency to breed new inefficiencies must be broken.

All American shipowners should have the freedom to exercise their best business judgment as to whether to acquire vessels from domestic or foreign sources. They should be allowed to use CCF to finance vessels from either source.

American shipyards must be given opportunity to become competitive in price, quality and delivery schedules so as to attract business not only from American shipowners but from foreign shipowners as well. They need assistance and incentives to develop the ability to offer shipowners meaningful new vessel source options.

CDS should be applied for and paid to the shipyards directly so that they can compete for business.

CDS should cover 100 percent of the domestic-foreign source differential up to a ceiling of 75 percent of the domestic price.

CDS should be available to U.S. yards for construction of U.S.-flag vessels for U.S. owners and for construction of foreign-flag vessels for any owners (provided that Marad may decline to subsidize construction for a foreign owner on national security grounds).

CDS dollars should be paid to the shipyard prior to payment of shipowner's dollars so as to reduce the owner's cost of construction financing.

The Government should subsidize interest on financing of the owner's share so that the owner's cost of financing the ship does not exceed what it would have been if owner had obtained the ship from a foreign yard.

All U.S. source requirements for components and machinery should be repealed and all component and machinery imports should be duty free.

Shipyards should be allowed to establish CCF's for purposes of acquiring new or improved or enlarged plant and equipment.

The scope of shipowner CCF should be expanded to permit construction of Jones Act vessels for employment in coastwise and intercoastal trades other than trade on inland or intercoastal waterways; as well as for additional classes of construction such as drilling rigs and vessels operated only in foreign-to-foreign commerce.

If these proposals were adopted, the yards could compete with foreign builders for new business with incentives to become more efficient and the shipowners would have a better choice of domestic and foreign shipbuilders with greater product and price competition. In any event, shipowners ought to be free of government constraints as to where they build their vessels.

IX. FURTHER PROPOSALS TO STRENGTHEN U.S. MERCHANT MARINE WITHOUT ODS

1. Investment tax credit to encourage being unsubsidized

Carriers should be encouraged to terminate or not apply for ODS by providing that every new vessel built for unsubsidized operation earn the owner a special investment tax credit (ITC) in addition to normal ITC. The special ITC would have a value to the owner equal to a 20-year ODS contract at a constant subsidy. If the subsidy were assumed to be $2 million per year per vessel the special ITC yielding the same benefit would be 16.2 percent.

2. Crew cost reduction for unsubsidized vessels

Wages of licensed and unlicensed personnel of any liner vessel operated without ODS and having a competitive manning level, say for example 20 to 25 merchant mariners, should be exempted from income tax as foreign source income when earned on foreign commerce voyages.

This would serve as an incentive for maritime labor unions to agree to reduced manning scales and lower wages (sharing the tax exemption between merchant mariners and ship operators) on ships operated without subsidy.

3. Preference cargoes

The scope of applicability of the U.S.-flag cargo preference requirements of section 901(b) of the 1936 Act ought be broadened to include government-related cargoes not now included. The additional cargoes could be required to be offered to unsubsidized vessels before being offered to subsidized vessels.

X. SUMMARY

This Subcommittee has a unique opportunity to act to strengthen the economic and defense security of the United States by helping our Merchant Marine and our shipbuilding industry to help themselves.

Sea-Land strongly supports those provisions of S. 1038 that would: Permit all vessel owners to build or acquire ships abroad and to use CCF for that purpose; provide all U.S.-flag liner vessels less than five years old when documented to have immediate access to preference cargoes; and repeal the 50 percent duty on foreign source vessel equipment and repairs.

We also strongly recommend as additional improvements: A new approach to CDS; shipyard CCF's for facility modernization; and special ITC, crew income tax exemptions and additional cargo preference rights for vessels operated without ODS.

However, *we urge rejection* of section 103 of S. 1038 changing citizenship requirements for participation in promotional programs. Instead, we strongly recommend that the Subcommittee reassert and strengthen existing citizenship requirements for all maritime purposes.

I am grateful to have had the opportunity to present these views and I thank the Chairman and the Members for the courtesy extended to me. I will be pleased to respond further to the issues as you may desire.

SEA-LAND MEMO

The Senate proposal in the last Congress for Fiscal Year 1983 Department of Transportation maritime program authorizations (S. 2336) contained a provision that would have permitted U.S.-flag operators to make qualified withdrawals (i.e., incurring no tax liability or interest penalty) from their Capital Construction Fund (CCF) for construction, reconstruction or acquisition of vessels outside the United States. The counterpart House bill (H.R. 5723) contained no such provision.

In anticipation of conference consideration of the Senate proposal, the Chairman and Ranking Minority Member of the House Armed Services Committee's Subcommittee on Seapower and Strategic and Critical Materials addressed a letter dated November 29, 1982 to the Chairman of the House Merchant Marine and Fisheries Committee (Annex A) objecting to use by subsidized vessel operators of their CCF for foreign purchases because that "would accelerate the current decline of the [U.S.] shipbuilding industrial base." They also referred to and enclosed a communication dated July 25, 1980 from Charles I. Hiltzheimer, Chairman and Chief Executive Officer of Sea-Land Industries Investments, Inc. to the Chairman of the House Armed Services Committee (Annex B) stating, in connection with then pending legislation to authorize purchase by the Navy of eight SL-7 class container vessels from Sea-Land, that the proceeds of the sale would be deposited in a Capital Construction Fund and "committed . . . for the construction of American-flag vessels in United States shipyards." Based on a reading of this statement out of context with the surrounding facts, the joint letter further observed that "[e]nactment of the Senate provision would appear to be inconsistent with the basis for Congressional approval of the purchase of the SL-7 ships."

The substantive changes proposed in the fiscal year 1983 authorization legislation were never addressed in a Committee on Conference, the Congress electing instead merely to provide maritime program funding through the vehicle of a Continuing Resolution. However, with Secretary Dole's transmittal to the Congress of the Administration's proposed maritime "promotional package" on April 8, 1983, which includes a provision to permit foreign use of CCF deposits, the issue of Sea-Land's "commitment" to domestic use of its CCF derived from proceeds of the SL-7 sales may well be raised again.

That "commitment" must be read in light of two very important facts. First, in agreeing to establish a CCF with the proceeds of the SL-7 sales, Sea-Land recognized that under section 607 of the Merchant Marine Act, 1936 as it then applied (and still does), withdrawals for vessel construction could be made without substantial adverse tax consequences and interest penalties only if expanded domestically. Thus, no rational shipping executive would then have contemplated any withdrawal for construction other than for domestic building. And second, that contemplated domestic use was integrally linked to the construction of tankers for charter to the Military Sealift Command (MSC)—with MSC encouragement—as replacement for five obsolete T-5 tankers then in MSC's nucleus fleet. This intended building program was well known to all concerned from the outset, and Sea-Land adhered unswervingly to that objective until the government itself effectively precluded such use of the funds in question.

The attached chronology makes the foregoing linkage between Sea-Land's "commitment" to domestic use of its CCF and the tanker build/MSC charter proposal abundantly clear.

The conclusion is inescapable that if the Administration proposal to amend section 607 is adopted, it would be inequitable and punitive now to impose on unsubsidized Sea-Land any greater restrictions on future use of its CCF than are applicable to its subsidized competitors. Indeed, it would be an egregious and ironic penalty on Sea-Land's contribution to the national defense capabilities of this nation by reason of the SL-7 sales.

CHRONOLOGY OF SEA-LAND'S SL-7 TRANSACTIONS AND RELATED GOVERNMENT ACTION

July 25, 1980—Sea-Land commits to put proceeds of SL-7 sales into a CCF for domestic use. (See Annex B.)

August 11, 1980—Chief of Naval Operations, with approval of the Secretary of Defense, authorizes Chief of Naval Material to initiate preliminary negotations with Sea-Land for purchase of SL-7's.

September 5, 1980—Naval Sea Systems Command (NavSea) requests Sea-Land to submit a firm-fixed-price proposal for the sale, modification, and delivery of eight SL-7 class container ships and associated items (RFP No. N000024-81-R-2027).

September 29, 1980—NavSea responds to inquiry from counsel for Sea-Land concerning clarification of RFP, concluding with statement that: "The current Navy requirement is as stated in the request for proposal [RFP]; therefore, the SEA-LAND proposal should respond to the RFP. SEA-LAND may, at their option, submit alternative proposals to the Navy."

October 27, 1980—Sea-Land submits proposal responsive to the Statement of Requirements in the RFP and, in addition, an alternative proposal that includes, inter alia, the following undertaking:

To deposit the entire net proceeds from the sale of the ships and spare parts in a Capital Construction Fund established under Section 607 of the Merchant Marine Act, 1936, to be utilized for the construction of handy-size product tankers capable of carrying JP5 and other refined fuels. These tankers, to be constructed in United States shipyards, will be chartered to the Navy for a period of five years under existing laws with options for renewal, at a rate to be negotiated. (This utilization of the Capital Construction Fund will apply whether the [SL-7] vessels are accepted in response to the Proposal or to this Aternative Proposal.) (Annex C.)

February 23, 1981—MSC sends memorandum to DCNO (Logistics) concerning acquisition of SL-7's, paragraph 3 of which states: "3. Sea-Land is obligated to place the proceeds of the SL-7 sale in a Capital Construction Fund to be utilized for the construction of new ships in U.S. shipyards. Sea-Land has expressed a willingness at this time to use such proceeds to build handy size tankers for charter to MSC. It is recommended that a firm commitment be obtained from Sea-Land so to dedicate the proceeds of this acquisition. Such a commitment would satisfy the expressed Congressional intent to benefit the U.S. shipbuilding industry and at the same time ensure a source of replacements for five obsolete T-5 tankers currently in MSC's nucleus fleet." (Annex D.)

March 13, 1981—CNO sends letter to Chairman, House Committee on Armed Services, in which the sole-source procurement of T-5 tankers in Sea-Land's Alternative Proposal to RFP No. N000024-21-R-2027 (using construction funds generated by sale of the SL-7's) is rejected, because "this would adversely influence the competitive bidding process . . .", but adding that: "[s]hould Sea-Land offer ships, built in U.S. yards with SL-7 proceeds, as part of a competitive bidding process to meet future Navy requirements . . . they should, of course, be considered . . ." (Annex E.)

June 30, 1981—Sea-Land sends letter to NavSea protesting most recent counterproposal to Response to RFP No. N00024-81-R-2027, in which Sea-Land reiterates (page 2, paragraph 3), even though sole-sourcing had obviously been precluded, that: "We had also agreed that the proceeds from the sale, through deposit in a Capital Construction Fund, would be used for vessel construction in U.S. shipyards, hopefully tankers for charter to the Navy. . . . ." (Annex F.)

July 31, 1981—NavSea advises MARAD that the purchase agreement with Sea-Land for the SL-7's was being concluded and notes that the Congress had "requested that the Navy ensure that the proceeds from the sale would be deposited into a Capital Construction Fund (CCF) of the type authorized by statute. . . ." It was further expressly stated that: "The Navy does not require that any special restrictions be included in the Capital Construction Fund Agreement with Sea-Land. . . ." (Annex G.)

Thus, NavSea was was expressly endorsing use of the "standard" CCF form of agreement, which provides (page 2, "Whereas" clause 6) that the terms and conditions set forth in the agreement are: "subject to the [1936 Merchant Marine] Act, as it may be amended from time to time. . . ." (Annex H.)

Such an agreement, to allow foreign use of CCF proceeds, is now before the Congress and expressly applicable to Sea-Land's CCF contract with MARAD if enacted.

July 31, 1981—MARAD advises Reynolds Leasing Corp. (an affiliate of Sea-Land) that the application for a CCF is approved (designated Contract No. MA/CCF-428, with attachments), and stating in paragraph II that: "The vessels identified on Schedule B [the proposed new T-5's] are qualified agreement vessels, with the understanding that the vessels will be constructed in the United States, documented under the laws of the United States, and operated in qualified trade. . . ." (Annex I.)

January 11, 1982—MARAD issues RFP No. N000382-R-7002, inviting proposals on behalf of MSC to build and charter the new T-5 class product tankers that Sea-Land had originally proposed for sole-source procurement in connection with the SL-7 RFP, declined at that time by CNO. (See Annexes C and E.)

March 10, 1982—Counsel for Sea-Land requests concurrence from MARAD that Sea-Land, if owner of the proposed new T-5 tankers, while exclusively chartered to the government for the carriage of military supplies, would not incur liquidated damages (as arguably required by applicable regulations) for government-directed use in the domestic trade; or in the alternative that such damages be waived. (Annex J.)

April 19, 1982—MARAD rejects both requests. (Annex K.)

April 22, 1982—Counsel for Sea-Land requests a ruling from MARAD that the T-5 tankers would be "qualified vessels" for use of its CCF, "because that was the original program for this Fund." (Annex L.)

May 10, 1982—Sea-Land submits Technical proposal in response to MSC RFP No. N0003382-R-7002, as modified in respects not here relevant. (Annex M.) Specifically reserved subjects prior to determination whether to submit a Cost Proposal were:

* * * * * * *

(2) resolution, acceptable of Offeror, of Offeror's application to the Maritime Administration re Leasing's Capital Construction Fund with respect to (a) use of the Fund, (b) incumbrance or collateralization of the Fund, and (c) use of foreign source components in the Vessels; and

(3) ability to operate the Vessels in the coastwise trade without loss to Offer due to liquidated damages under Capital Construction Fund regualtions; and

* * * * * * *

May 27, 1982—MARAD advises counsel for Sea-Land that the proposed replacement T-5's would not be "qualified" vessels for purposes of the CCF. (Annex N.)

May 28, 1982—Sea-Land declines to submit Cost Proposal for MSC RFP No. N0003382-R-7002, because the effect of MARAD's ruling would be to impose substantial tax and interest penalties on Sea-Land if the CCF were to be used for construction of the very vessels for which the CCF had been established in the first place. (See Annex O.)

[The following information was subsequently received for the record:]

QUESTIONS OF SENATOR INOUYE AND THE ANSWERS THERETO

Question. A few years ago our international liner fleet was threatened by the drastic rate cutting practices of the Soviet fleet which is 100 percent subsidized. Congress felt it was in the national interest to protect our fleet, and so we passed the Controlled Carrier Act. At the time, there was opposition from the Justice Department on the grounds that we were discouraging competition. Shippers also complained because they felt the law would deprive them of the lower rates—sometimes 60 percent—which the Soviets were offering.

And more recently, there was opposition to S. 47, by many who complained it was anti-competitive. Nevertheless, we felt that the conference system, which permits cartel pricing, needed to be continued and strengthened if the U.S. was to have a competitive merchant fleet.

In both of these cases there were trade-offs, and we struck the balance in favor of our merchant marine.

(A) Why isn't it just as valid to strike the balance in favor of our shipyards?

Answer. Sea-Land believes that American shipyards require incentives and assistance toward becoming more efficient and competitive. American shipowners, themselves need incentives and assistance toward becoming more efficient and cost competitive with foreign-flag shipowners. Each need must be recognized and dealt with as a separate problem.

We believe that fair incentives can be provided to both shipyards and shipowners that will make both more competitive. In that regard, the prepared statement of C. I. Hiltzheimer supports authorization of expenditure of CCF for foreign-source vessel acquisitions, but also proposes steps to allow U.S. shipyards to become more competitive.

Incidentally, we do not believe that S. 47 favors the Merchant Marine. Rather, it strikes a fair balance between users and providers of liner service.

Question. One of the administration's proposals would permit a corporation operating U.S.-flag vessels to be 75 percent foreign owned. This, of course, means foreign interests would have operational control.

(A) Does the fact that foreign interests would have operational control raise any national security problems (e.g. military sealift; defense features aboard vessels; availability in time of national emergency, etc.)?

(B) What is the usual practice of other countries in this regard? Do they allow their national flag vessels to be foreign controlled?

(C) U.S.-owned flags of convenience are supposed to be available to the U.S. in time of national emergency. This is the concept of "effective United States control." It is based on the theory that for purposes of controlling the operations of the vessel, the nationality of a vessel's owners rather than its registry is the real test. Isn't the idea of allowing 75 percent foreign ownership just the opposite? In other words, doesn't the administration's proposal in effect say that for purposes of controlling the operation of the vessel, a vessel's registry is the important thing?

(D) How does the administration's proposal affect section 804 of the Merchant Marine Act? Section 804 makes it unlawful for any contractor receiving ODS to operate any foreign-flag vessel which competes with any essential U.S. service.

Would a foreigner who owned 75 percent of a U.S.-flag vessel be precluded from parallel operation with a foreign-flag vessel?

Answer. (A) Foreign majority ownership will inevitably lead to foreign operational control of U.S.-flag vessels. This would lead to national security problems in regard to Military Sealift, defense features aboard vessels, availability in time of national emergency, and employment of the Merchant Marine as an arm of peacetime national policy.

(B) Many other countries do allow vessels flying their flag to be foreign controlled. For the most part, they have done that in order to develop national-flag fleets for other than defense or security reasons. No one can seriously view the merchant marine of Liberia, Panama, Malta, Singapore and other flag of convenience nations as "fourth arms of national defense" of those nations.

(C) The idea of allowing 75 percent foreign ownership of U.S.-flag vessels is definitely the opposite of the "effective United States control" concept for U.S.-owned flags of convenience. The mere presence of the United States flag on a vessel will give our Government control only to the extent that it can physically reach that vessel.

Furthermore, "effective United States control" has proven illusory in the past. There were numerous instances during the Vietnam war in which "effective control" vessels refused to carry military cargo.

(D) Section 802 would not preclude a foreigner owning 75 percent of a U.S.-flag vessel from parallel operation with a foreign-flag vessel. That is because the foreigner, being merely the majority shareholder in the U.S.-flag operating company, would not itself be the contractor under the ODS contract. It could easily avoid being the "holding company" by employing various devices which would successfully screen it from identification.

On the other hand, if 75 percent ownership of U.S.-flag companies by foreigners were (for some totally illogical reason) allowed it would be absurd for section 804 to forbid ODS contractors to have foreign flag interests of their own.

Further elaboration is provided in the prepared statement of C. I. Hiltzheimer.

Question. Under present law, the CDS rate is 50 percent. In many instances, the differential between U.S. and foreign building prices now exceeds this statutory subsidy rate. Thus "parity" is not achieved. If CDS were available, and the subsidy rate were raised to 62 percent would "parity" be achieved?

Answer. If CDS were available and the subsidy rate were raised to 62 percent that still would not achieve "parity" between U.S.-source and foreign-source construction.

The present cost differential is approximately 66⅔ percent and may go as high as 75 percent in coming years.

Even if the full differential were funded by CDS, there would be other problems which still make American shipyards noncompetitive. They include: Completion and delivery schedules which may be twice that of foreign yards and result in both higher vessel financing costs and delayed earning opportunities for shipowners; foreign yards offer better financing terms; lack of slow-speed diesel technology; and the willingness of foreign shipyards to give "firm fixed prices" while American shipyards insist upon escalation clauses.

Question. Would you support a 'build foreign' provision regardless of whether or not it is accompanied by authorization to use capital construction funds (CCF) for that purpose?

Answer. Sea-Land would oppose a "build foreign" provision if it were not accompanied by authorization to use Capital Construction Funds (CCF) for that purpose.

Question. Under the Shipping Act, all vessels in our international trades must have the opportunity to compete fairly and equitably.

If Congress were to enact a 'build foreign' provision without also providing that capital construction funds could be used for that purpose, would any U.S.-flag liner operator be put at a competitive disadvantage vis-a-vis other U.S.-liner operators?

Answer. Yes, unsubsidized carriers will be disadvantaged.

United States Lines has plans to build 12 vessels in a Korean shipyard but has not yet been able to complete financing arrangements.

Crowley Maritime and Lykes have also announced intentions to build foreign but have not yet been able to complete arrangements.

Of the three, U.S. Lines has, perhaps, the best chance of putting together a package.

Sea-Land will be disadvantaged if carriers who receive ODS are allowed to achieve vessel cost savings by building foreign but Sea-Land not be allowed to use its CCF for foreign construction. For Sea-Land to date, the disadvantages of not receiving ODS monies have been partially offset by the advantage of having lower capital cost foreign-built U.S.-flag vessels.

However, if Sea-Land is restricted to domestic construction with its CCF while other liner companies are allowed to build foreign even without CCF, Sea-Land will wind up with higher capital cost ships and higher operating costs due to the lack of ODS.

Senator STEVENS. Thank you. We appreciate it very much.

Next, Jesse Calhoon, National Marine Engineers Beneficial Association, NMEBA.

Senator TRIBLE. Mr. Chairman, let me say a word, if I might. I am a half an hour late for two appointments, and so I am going to have to leave at this juncture. I had hoped to be here for Mr. Calhoon's testimony and that of Frank Drozak and the other members of the panel. Let me apologize for my departure, and let me say that I will read your testimony with interest and also review your colloquy with my distinguished colleagues. I thank you for being here.

Senator STEVENS. Thank you very much.

Good morning.

STATEMENT OF JESSE M. CALHOON, PRESIDENT, NATIONAL MARINE ENGINEERS BENEFICIAL ASSOCIATION

Mr. CALHOON. Good morning, Mr. Chairman.

Mr. Chairman, knowing your press for time, we tried to keep our remarks short.

I am pleased and honored to testify before this committee on Maritime Administration authorizations for fiscal year 1984. I am also pleased to testify in favor of the legislation you have introduced on behalf of the administration to implement five important elements of the President's maritime policy.

On MarAd authorizations, I will be brief. First, we all know the many pressures placed on the Federal budget in recent years, and in that spirit I have been restrained in my criticism of maritime budget cuts. However, the $439 million proposed by the administration is the bare minimum that should be devoted to the ODS program. Until a workable alternative is put in place, this program must be continued.

Second, arbitrary title XI loan ceilings should be lifted. This loan program is a proven moneymaker for the U.S. Government, and it builds ships. It literally builds ships. I see no reason why the ideological inclination of a few zealots in the OMB should be allowed to

constrict this essential program by the use of unsubstantiated and incorrect assertions that title XI distorts the credit market.

In addition to MarAd authorizations, Mr. Chairman, you have introduced legislation to implement five maritime promotional elements recommended by the Secretary of Transportation. Time does not permit me to discuss them all in detail, but I do want to state that as president of the National Marine Engineers Beneficial Association, I support each and every one of them.

Three of the five are directly concerned with building or acquiring ships abroad. On this issue, the U.S. ship operating industry simply has no choice. Construction subsidies have been eliminated, yet U.S.-built ships cost two to three times as much to construct. No operator in the world can compete in today's world markets with that kind of a handicap and survive, and no operator will.

Mr. Chairman, the maritime industry is now suffering from terminal cancer. We cannot build foreign and we cannot build domestic. So it is a matter of time before every American ship disappears.

For decades, U.S. commercial shipbuilding and U.S. ship operating have been linked. If they stay linked without construction subsidies, then both these segments of the maritime industry will disappear. Both segments of our industry need to be made more efficient, and I believe that both, with imagination and hard work, can compete in world markets. But, to be plain and blunt, there is no way today that the U.S. ship operating industry can support singlehandedly the U.S. commercial shipbuilding industry. If we try to do this in the present shipping climate, we will all go under fast. And that would serve no one, least of all our Nation.

Without construction subsidies, we must build and acquire abroad to survive, and I can only conclude by saying that those who oppose build foreign will bear a very heavy responsibility for the destruction of our industry if they succeed.

I would also like to note my full support for changes that would increase the foreign ownership limitation to 75 percent. If we are to rebuild the U.S.-flag fleet with modern, efficient, low-cost ships, we must summon up a major increase in capital investment. This 75-percent limitation is one important tool to that end. These ships will still have U.S. officers and U.S. crews, so let no one claim that increased foreign ownership is a threat to national security. Quite the reverse, in fact, since allowing increased foreign investment will mean more U.S.-flag ships and more capability to provide support in time of war.

I believe this investment stimulus can work. The current international climate is such that we have substantial potential to attract foreign capital seeking a stable home.

Mr. Chairman, our industry stands at a decisive point in its history. I do not approve of everything this administration has done or not done in the maritime area, but the promotional programs that have been outlined by President Reagan are at least a constructive beginning, a foundation for other measures. We will harm no one more than ourselves if we pick apart each element and in so doing destroy the entire program.

I think these five proposed measures make sense, and I think that we should make them, in the words of Winston Churchill, not the beginning of the end, but instead the end of the beginning.

Thank you.

Senator STEVENS. Thank you very much. It is nice to see you here.

This build-foreign problem is a tough one. Have you ever given any thought to what we might do to add further incentives to build United States?

Mr. CALHOON. Yes, sir. Mr. Chairman, first, we must analyze what our problem is in construction of ships in the United States. Contrary to the testimony you will hear before this or any other committee, the plain facts belie what may be presented as fact. I serve on the board of directors of one of the Nation's commercial shipyards, so I do have some first-hand knowledge of some of the problems in the commercial shipyard sector.

As you know, I am privileged to serve as president of a national labor union, and I also serve as the president of the board of trustees of its pension plan. We are currently constructing two ships outside the United States. Now, I could be selfish and say we should not allow foreign building, and I could triple my investment in those two ships overnight. The value of the ships would increase from $32 million to $94 million overnight if there is no more foreign building permitted, so our union would reap a $64 million windfall profit. But that is not good for the industry, nor is it good for the Nation.

The No. 1 problem in U.S. shipbuilding is that wages are too low. Now, that may sound typical coming from a union official, but this did not come from Jesse Calhoon. It came from IHI, a Japanese firm whom we engaged to do an extensive study of the shipyard.

Our shipyards run a perpetual training program of massive costs. As soon as they fully train a craftsman and start paying him $10 an hour as a first class electrician, he looks to the other end of town and sees a construction project where he can make $18 an hour as an electrician. As soon as he gets a better paying job, he leaves.

This revolving door of training means that as soon as the worker is trained, he looks for higher paying employment and he usually finds it.

The No. 2 problem in the U.S. shipyards is that they have too much technology. Contrary to all the arguments you may hear, too much technology makes U.S. shipyards high cost. Allow me to give you a graphic example of too much technology. In this shipyard, for examaple, we have a very sophisticated plate bending machine, a very expensive piece of machinery. It can bend the plate in seconds, but it takes time to set the computer, so if you bend the plate and you hook it, the crane picks it up and takes it to the dry dock.

You put the plate in position, and it is off a quarter of an inch. These cranes have to move slowly, because you have workers crossing in front of them. So it slowly chugs back to the plate shop. By this time, you have another plate the computer is setting, so you have the crane standing still, you have the gang at the ship with nothing to do while this crane is waiting to get this plate into the plate shop.

When the computer is set and the other plate is bent, then they must reset the computer for the first plate, so you can stand with a whole gang, a massive piece of equipment, expensive equipment, for 4 hours with no production.

In contrast to this high technology that we have, the Japanese have six people on the dry dock with big acetylene torches and a fire hose. They heat the plate by applying the heat in the proper places, and throwing the fire hose on it, the plate bends. They lift the plate up. If it is out of position one quarter of an inch, it is dropped right down to the dock, the torches are applied again and the plate bends the way it should be bent. They cool it off with the fire hoses, put it back up. No lost time.

That is the issue of too much technology. A lot of the technology in the U.S. shipyards is required by U.S. Naval ships. But when the shipyard buys that technology to construct U.S. Naval ships, and incurs the heavy capital costs required to get that technology, that costs is equally divided over all the ships they construct. So merchant ships are paying the high price for technology used exclusively on a Navy ship.

IHI also said that the top management, that is, the senior management of the shipyard, was outstanding, but they said there were problems with atrocious middle management in securing production. So another major cost factor in the American shipyard is our supply system.

There is a real difference between the United States and Japan in terms of product and supply. If a train derailed in Japan, for example, the whole railroad concentrates on getting that cargo out of that train and getting it delivered to the customer, but the U.S. railroad concentrates on getting the train back on the track and the track repaired. thus, the U.S. railroad looks at operating the railroad, while the Japanese look at delivering the cargo.

In the typical Japanese yard, the steel that arrives this morning will be installed in the ship this afternoon. The American shipbuilder cannot depend on his supply system. So he has to buy the steel way ahead of time, unload it from the ship, from the freight train or from the trailer into a holding yard. When he is ready to use it, he has to go back and reload it. Consequently it is double-handled and the shipyard is obligated to maintain massive inventory. All this adds to the cost of these ships.

The overhead costs in American shipyards are extremely high compared to foreign yards. Why is this overhead cost so high? I do not know, but the Maritime Administration could supply you with figures on overhead costs in American yards. There are tremendous differences, shattering differences. Why it is that great? I do not know.

Yet, there are ways that American shipyards can compete. Some shipyards do certain specialized parts of ship construction very well. Why should you have to build a total ship in one shipyard with high technology when the major technology in the shipyard goes into the forming of the bow and stern section where bent plates are required?

The whole midbody of a ship can be compared to an erector set. It is hanging steel. On the midbody, which is by far the largest part of the ship, hanging steel and fast production is the way to go. Why

not build the bows or the bows and stern in one shipyard and midbodies in another, and then put the pieces together?

Certainly our shipyards can do it. We have the capability. We have the knowhow. We have the technology to utilize the strongest part of both yards. With the current economic slump in this country, I think the shipbuilders, if they have order books from their suppliers, could demand and get immediate or programed delivery which would save money on inventory and on double handling. When the order books were full, it was difficult to talk to U.S. steel makers. With the order books being slack nowadays, it is very easy to talk to U.S. steel makers about delivering the steel on time.

And on top of all of these problems that the shipyards have, Mr. Chairman, you have hanging over the maritime industry the greatest amassment of Federal bureaucacy and regulations that has ever been put upon any industry. That in turn delays the shipbuilding, and that increases the costs.

It is now quite clear under the 1-year window for building foreign what the difference in the Coast Guard regulations had to do with overall ship construction costs. There is no question that Coast Guard regulations add 8 to 12 percent to the cost of a ship. Do those regulations make the ships any cheaper, any better, any safer? I think there is a marketplace measure that can be used to find out if some of our Coast Guard regulations make American ships any safer or better.

To illustrate my point the commercial insurance companies, for example, insure both American ships and foreign ships. I do not see any difference in the rates. So, if the American ship was any safer, it should be getting a lower insurance rate.

Senator STEVENS. Well, I thank you. I really think it is time for us to try to get all portions of this industry together and find some solutions to these problems.

Do you have any questions?

Senator INOUYE. Yes. Mr. Chairman, I will have to be leaving soon, so I will be submitting most of my questions to the other witnesses.

Mr. Calhoon, I notice that we have two very important leaders of labor organizations here, you and Mr. Drozak. And apparently, according to what I have read, the testimony is not the same.

Do you represent other labor organizations?

Mr. CALHOON. No, I represent the National Marine Engineers Beneficial Association.

Senator INOUYE. So you are not speaking for other groups?

Mr. CALHOON. No, sir.

Senator INOUYE. I will be asking Mr. Drozak the same question also.

One of the previous witnesses suggested that in the real world money controls and not management, in response to my question on raising the ownership percentage from 49 to 75.

Mr. CALHOON. Mr. Senator, I heard my dear friend from Sea-Land say that, and if I were sitting in Mr. Hiltzheimer's chair I would probably say the same thing. I would not want any more competition.

But the truth of the matter is that neither money nor management controls. What controls is the U.S. Government and the crew

aboard the ship. If that crew and officers are American citizens, they are in control of the ship. The money is not in control of the ship and the management is not in control of the ship.

And there is not an American ship, with American officers and American crew, that gets an order from the U.S. Government that is not going to respond to that order, come hell or high water. They have done it since the founding of this Nation and they will continue to do it. The direction of the ship will be controlled by the hand on the wheel not by management and not by bankers.

There is great potential for allowing expansion by allowing foreign capital to invest in U.S.-flag shipping. If you will look at the net worth of the existing American steamship companies, they are not going to build many ships.

I was talking to one steamship company official the other day who represents a British steamship company, that has six Japanese-flag ships running from the United States to West Africa carrying general cargo. These Japanese-flag ships have British officers and Indian crews.

Because of what has happened in the international world of shipping, they feel they are going to be squeezed out by UNCTAD. Accordingly, they are considering building or placing six ships under the American flag to operate from the United States to West Africa in exactly the same trade in which they are participating now with a Japanese-flag vessel with British officers and Indian crews.

Where is the security of the United States better off, with a British company with a Japanese flag, British officers, Indian crews, or a British company with an American flag, with American officers and American crews? Where lies the security of the United States?

Senator INOUYE. In the case of the British ship, in the case of an emergency the American Government has no control over it.

Mr. CALHOON. Mr. Chairman, to own the American ship the British company would have to establish a domestic U.S. corporation. That domestic U.S. corporation would fall under all U.S. laws. The Federal Government has a statutory right to take over any vessel at any time that they desire. The foreign owner cannot transfer that vessel out of the U.S. registry without the permission of the U.S. Government.

So all of the necessary controls will be in place. It is under the U.S. registry and has an American crew. By law, it must have an American crew and American officers. They cannot transfer it outside of the United States, and a domestic corporation that literally owns the ship has to be a U.S. corporation and come under all U.S. laws.

I see no problem with the national security and the availability aspects of these ships. Now, if I were in the steamship business I would not want them in. I would not want them in because they would represent more competition.

Senator INOUYE. Thank you very much.

[The following information was subsequently received for the record:]

NATIONAL MARINE ENGINEERS'
BENEFICIAL ASSOCIATION,
Washington, D.C., April 27, 1983.

Hon. DANIEL K. INOUYE,
Subcommittee on Merchant Marine Committee on Commerce, Science, and Transportation, U.S. Senate, Washington, D.C.

DEAR SENATOR INOUYE: At a hearing recently at which I testified before the Subcommittee on Merchant Marine, you asked a question relating to potential effects on our national security on the lifting of the foreign ownership requirements from 49 to 75 percent.

Immediately after the hearing, I directed our counsel to prepare a memorandum setting forth the legal basis for any discernible national security implications that this proposal would involve. The legal memorandum is attached for your information, and I would appreciate if this attachment can be made part of my testimony for the record.

With kind personal regards,
Sincerely,

J. M. CALHOON, *President.*

Attachment.

KURRUS & DYER,
Washington, D.C., April 15, 1983.

Mr. JESSE M. CALHOON,
President, National Marine Engineer's Beneficial Association,
Washington, D.C.

DEAR JESSE: In opposition to the proposal of the Administration to increase the permissible stock ownership by non-citizens to 75 percent, the argument has been raised that this legislative change would have an adverse effect on our national security. Such arguments in my opinion are without any real legal or factual substance.

The reasons that once served to support the restrictive citizenship requirements in section 2 of the Shipping Act have long since ceased to exist. There are no discernible national defense or national security reasons to sustain this statutory provision. Certainly, there are no commercial reasons—other than the restriction of competition, which is clearly not in the national interest.

If the principal purpose of the section 2 stock ownership requirement is to ensure the availability of vessels to the United States government in time of war or national emergency, that purpose is satisfied by many other maritime laws. Under 46 U.S.C. Sec. 672a(a), (b), United States-flag documentation by itself ensures that all of a vessel's officers and at least 75 percent of its entire non-officer crew will be United States citizens. In practice, most United States-flag vessels sail with 100 percent United States crews. Thus, United States citizens are always in actual physical control of United States-flag vessels. Most important, a large percentage of the deck and engineering officers hold commissions in the United States Naval Reserve and all American seagoing personnel, both licensed and unlicensed, have traditionally been available to the United States in times of military need. Under section 902 of the Merchant Marine Act of 1936, all United States-flag vessels are subject to government requisition in time of war or national emergency. By reason of section 9 of the Shipping Act, 1916, no owner of any United States-flag vessel may transfer the vessel to non-citizens or reflag it without Maritime Administration approval. Finally, section 2 of the Shipping Act requires that the chief executive officer and the chairman of the board as well as a majority of the board of directors be United States citizens. The ownership tests of section 2 add nothing of value to these security safeguards since shareholders of vessel-owning corporations, in the capacity of shareholders, exercise no immediate or day-to-day control over the vessels or the corporations.

Sincerely,

RICHARD W. KURRUS.

Senator STEVENS. Thank you very much. We appreciate your comments today.

Frank Drozak, president of Seafarers International Union.

Frank, Senator Inouye has another appointment. He would like to ask a question before you start.

STATEMENT OF FRANK DROZAK, PRESIDENT, MARITIME TRADES DEPARTMENT, AFL–CIO

Mr. DROZAK. Go right ahead, certainly.

Senator INOUYE. I will be submitting my questions to you for your consideration, but I would like to ask the same question I asked Mr. Calhoon. Are you speaking for your union or for other unions?

Mr. DROZAK. I am speaking for the Maritime Trades Department, which represents 43 international unions, 8½ million people, and has shipbuilding, maritime and allied industry, and the Seafarers International Union.

Senator INOUYE. Thank you, sir.

Senator STEVENS. Thank you very much, Senator.

Mr. DROZAK. Mr. Chairman, as I have just said, I am president of the Maritime Trades Department, AFL–CIO, representing 8½ million workers in 43 allied trades.

First, we are grateful for this opportunity to express our views on the budget proposals for the programs under the jurisdiction of the Maritime Administration. With your permission, I will submit my full statement for the record and will take just a few moments to review the major points.

We are deeply concerned by the disturbing trend that has developed in the process of funding maritime programs for the fiscal year 1984. The administration has requested no funds for construction differential subsidy programs. It has requested that a $900 million cap be placed on title XI loan guarantees, and it has requested $429 million for the operating differential subsidy programs, only enough to fulfill existing contract obligations.

Mr. Chairman, it appears to us that short-term concerns with the budget are dictating long-term policies that will far outweigh any savings. As you well know, it is a longstanding national policy, established by Congress in the Merchant Marine Act of 1920 and amended in the Merchant Marine Act of 1936, that this country should have a substantial merchant fleet. I would just like to quote one part of that:

> It is necessary for the national defense and for the proper growth of its foreign and domestic commerce that the United States shall have a merchant marine of the best equipped and most suitable types of vessels sufficient to carry the greater portion of its commerce and serve as the navy or military auxiliary in times of war or national emergency, ultimately to be owned and operated by privately owned citizens of the United States, and it is hereby declared the policy of the United States to do whatever may be necessary to develop and encourage the maintenance of such a merchant marine.

Likewise, Mr. Chairman, it is a longstanding policy that a shipyard mobilization base should be maintained for national security purposes. It has been estimated that 26 yards make up this base. Many of these are now faced with closing because of this administration's actions.

When you look at the funding levels proposed by the administration, it is clear that they are insufficient to carry out the national maritime policies. However, when combined with the so-called promotional program, especially the recent request for authority to allow foreign building, repair and ownership, our maritime programs are becoming a shipwreck.

In building and repairing abroad, the absence of supporting CDS funding is resulting in 36 ships being built in foreign yards and another 13 ships being reconstructed in foreign yards. This includes both liners and bulk ships. Had the administration and Congress approved adequate funding for CDS, these ships would have been built in U.S. yards, employing thousands and thousands of U.S. workers.

The bottom line is that the U.S. commercial shipyards are being allowed to die. The Nation cannot afford to let this happen, no matter what we save in short-term dollars. Accordingly, we should urge you to increase funding for CDS in the coming year to $400 million or more.

We would also urge you to increase the 50-percent cap on CDS fundings available for a U.S.-built ship, and we would urge you to increase the ceiling of the title XI program to $15 billion.

We would urge that ODS funding be made available for new contracts. While there may come a day when the U.S. merchant fleet is so healthy that it can exist without operating subsidy, that day is nowhere in sight, and until it is we believe the ODS program should be kept alive and funded. As things stand, the private commercial fleet, like the shipyards, is dying.

We would point out that it is our belief that the Government must be actively involved in the operation of the U.S. merchant marine. We implore the administration to reconsider its unilateral policy of eliminating existing support programs prior to the development of a meaningful replacement.

Their latest legislative promotional proposal spells death to the commercial yards and the private merchant fleet. What is needed is a comprehensive program, one that does not favor one sector at the expense of another.

Finally, we would like to record our concern that the administration suspended negotiations on the renewal of the U.S.-U.S.S.R. maritime agreement. At this point in time it seems clear that U.S. industries have been hurt, without the positive foreign policy result that was sought. If grain shipments to the Soviet Union were still available, some of the laid-up tonnage that was built by CDS funding would be out making a positive contribution to the economy. We would urge a timely negotiation of this agreement.

The maritime trades department stands ready to work in a partnership with the Government, management and labor to develop policies which will provide the stimulus to restore work in our domestic shipyards. However, until such time as new initiatives are set in place, we urge this Congress to fund existing Government programs.

Thank you.

Senator STEVENS. How many do you say you think of the vessels have been constructed and ordered under the temporary authority?

Mr. DROZAK. Thirty-six, sir.

Senator STEVENS. Thirty-six.

Mr. DROZAK. Mr. Chairman, if I may, I would just like to quote one short sentence for the record.

Senator STEVENS. Surely.

Mr. DROZAK. This was a press release by the President of the United States at Sun Shipbuilding on August 19, 1980:

Shipbuilding, a strong maritime industry and our national security go hand in hand. Unless we begin to reverse the trend and get both Navy shipbuilding on track and develop a national maritime agenda, employment is expected to sink to 75,000 workers by 1983.

The truth is, the Carter Administration has no current long-range shipbuilding or maritime policy. America is a maritime nation. Yet, our maritime industry is at a critical stage. 95 percent of our trade moves in foreign vessels—a serious situation.

The U.S. is in dire need of a rational, reasonable, and effective maritime policy. This plan would end the rigors of the past on-again, off-again Carter plan and provide stability in planning, production, and work force in our shipyards. My comprehensive national maritime policy will be targeted toward a greater market share of exports and imports for U.S.-flag shipping.

A new beginning can and should be forged between a new Republican Administration and U.S. shipbuilding and their workers and their suppliers, to make the American people safe and secure, to maintain peace on the seas through strength.

That, Mr. Chairman, was a quote from President Reagan's position at Sun Shipyard, and it certainly appears to me that his recommendation to this committee to accept his maritime policy is absolutely backward from what he promised the American people to do when he was campaigning to revitalize this industry. Certainly he had a lot of us believing that that would be part of his promotional program.

Senator STEVENS. We have, as I indicated, the concept of trying to get a study going as to what might be done to stimulate the domestic shipbuilding industry and at the same time take a portion of the burden off the domestic producers. Have you ever done a similar kind of analysis? We had a little conversation about this.

Mr. DROZAK. Well, Mr. Chairman, there have been so many studies done on this maritime industry for the past 40 years. You and your good office have participated in quite a bit of it. It seems to me that of all the studies that we have done relative to this industry, none of it has worked. And I had thought and hoped that when President Nixon was elected and he put together that Merchant Marine Act of 1970, that it would be the beginning of working to revitalize this industry.

But as always is the case, there is one part of the chain that is missing and has been missing, and that is a cargo policy program. You can reduce, in my opinion, costs—and I am not a shipyard expert. Certainly we have economists who do a lot of work in that field.

But I do not believe that you will ever reduce shipyard costs unless you have a program. You are building one and two ships, and they can speak for themselves, but certainly I know that if you build 1 automobile or if you build 1,000 automobiles certainly the cost is going to be a lot less by building the 1,000 automobiles than it would be building 1.

The same thing in my opinion would be if you were building 1 diesel engine or you are going to build 1,000 diesel engines. That is why I believe, Mr. Chairman, that the Russell Long-Trible-Inouye bill on the question of bulk could be and would be the beginning of a long-range program which would enable the reduction of costs in the shipyards, because the suppliers and the manufacturers could look at a long-term base of building.

But what we are doing and what we have been doing is we have been hitting and missing. We have built one ship and there are no more ships for the next 9 months. The overhead still goes, in my

opinion, in the shipyard, as well as the overhead goes with a ship that is laid up and not carrying any cargo.

So I believe these are some of the things that that bill would answer. Certainly there are differences of opinion relative to it, but we have tried everything else. It seems to me that nothing has worked. And I would think that type of approach relative to revitalizing this industry is worth a chance.

I do not know of anything else. Studies I do not believe are going to do anything. We have studied ourselves to death and we have studied ourselves from 2,400 ships down to now less than 460 ships, and now we are still going to study it. It just does not make sense.

I think there is enough in the record. I am sure that the Halls of Congress and the library are full of testimony after testimony, record after record of this issue and study.

Senator STEVENS. The only trouble is that the bill that we are reviewing is subject to a point of order on the floor because of the budget, and not the President's budget either, the total budget of the Congress. There is no money in that budget for an increased level of assistance.

I think we are going to have to work out something that looks at this thing from the point of view of this current period of budget crunch and projects out what happens in a period of recovery. I hope that you will help us work on it.

I could not get a bill out there on the floor. There would be a point of order against it. That is what I told my colleagues. Unless we get it in this budget resolution that is coming out right now, there is going to be a point of order against that bill.

So we might as well accept the fact that we have got to deal with something that might have out-year dollar signs. We can do that, as you know, but we cannot deal with it this year. So if we are going to have any new vessels this year, they have got to be under the build-foreign concept. So I think there is a phase-in, phase-out concept of a new maritime policy that all of us have to work on to make it work.

Mr. DROZAK. Well, Senator, then I think we ought to rewrite the Merchant Marine Act of 1936.

Senator STEVENS. We are looking at that.

Mr. DROZAK. Because what we are doing is taking one piece and patching it and destroying the other part of it, and it has not worked. It is not going to work, nor will it work in whatever we may do.

And I heard you say earlier that we must have a maritime promotional program, and in a maritime promotional program, unless there are cargoes in that program nothing is going to work. Let me just say this to you, sir: I believe that the question of building foreign will decrease the liner operation from the one present 162 ships now down to some 60 or 70 ships, because there is no more cargo out there. So these guys are going to be competing against what is left there.

So somebody is going to go out of business. I will predict to you right here and today, sir, within 5 years if this administration's proposal goes through, that you will have probably three liner operators left in the liner cargo business, because, as I view it, that is the way it looks like it is going to go.

Senator STEVENS. As I understand the conversation I have been in with the President, he still maintains the position you described in the comments he made at the Sun Shipyards. The problem is that we just do not have the money to pursue the concepts that were involved. We must fund an interim position. I think you are interpreting it as a permanent policy, rather than an interim policy and I hope we can look at it on a different basis.

Mr. DROZAK. The Senate and Congress was able to find a 5-cent-a-gallon tax to create some 200,000 to 300,000 jobs for workers, people who are out of work. It would seem to me that when you talk about creating jobs, if you looked at the return of revenue in the form of taxes and employment versus laying out Federal funds for welfare, for unemployment, et cetera, it would seem to me it would be to our advantage to promote the proper funds, one offsetting the other.

You may not make a profit off it, but I believe that the subsidy that has been granted over the years, if it is given a correct examination, will show that it has not been money wasted, nor has the taxpayers' money been thrown away.

Two, I know too—and I support very strongly the national defense. And if the American merchant marine is not part of the national defense, then why does Congress declare it as the fourth arm, and why does the military depend on it so much? And in that form, how come there could not have been money appropriated out of the defense package to build and construct proper ships and give proper relief?

I think that is something we should look at.

Senator STEVENS. I agree. I think the sealift capability of defense has got to be integrated with the peacetime use of those vessels to foster the export of our products abroad, and we have to work on that.

Well, we will be talking to you again. I appreciate your suggestions. I do think we have got to work together to find an interim solution and get together a long-term proposal to carry out that commitment that the President made.

Mr. DROZAK. I will certainly look forward to working with you, Senator. I think you are a fine Senator from the great State of Alaska, and I would really like to try to talk to you about trying to do something with Alaska, too.

[The statement follows:]

STATEMENT OF FRANK DROZAK, PRESIDENT, MARITIME TRADES DEPARTMENT, AFL-CIO

Mr. Chairman and members of the subcommittee, my name is Frank Drozak. I am President of the Maritime Trades Department, AFL-CIO, representing 8½ million workers in 43 allied trades. We are grateful for this opportunity to express our views on the budget proposals for the programs under the jurisdiction of the Maritime Administration.

In recent years, a disturbing trend has developed in the process of funding maritime programs. Instead of being considered in the context of a national maritime policy, these programs have been singled out and debated strictly on the basis of their cost to the Federal Treasury. This has led to a dangerously distorted view of the relative value of maritime programs.

First, by only examining the costs of each program, the Administration has lost sight of the economic benefits that result from these programs. For example, $1.9 billion was expended in operating differential subsidies (ODS) between 1970 and 1978. That certainly sounds like a lot of money. But that $1.9 billion investment

generated $11.6 billion in output throughout the entire United States economy and provided 196,000 man-years of employment in the maritime industry. Over the same period, $1.4 billion appropriated for the construction differential subsidy (CDS) program generated the construction of vessels and marine equipment valued at $4.2 billion and provided 136,000 man-years of shipyard employment.

A sense of perspective is clearly lost when only short term costs are examined. Cutting back CDS and ODS funding may look good on the balance sheet this year, but in the years ahead the loss of potential revenue will be felt.

Leaving cost-benefit analysis aside, we must reexamine why these maritime support programs are on the books. They are on the books because the United States Congress decided in 1936 that there was a compelling need to have a strong U.S. Merchant Marine capable of carrying our commerce in times of peace and serving as our fourth arm of defense in times of war. In addition, it was the judgement of the Congress that the nation should maintain a shipyard mobilization base.

In the years since the 1936 Merchant Marine Act was first passed, our nation has undergone a tremendous amount of change. But the compelling need to have a strong U.S. Merchant Marine and shipyard mobilization base has not diminished with the years.

The decline of the maritime industry in the United States since 1950 has been felt throughout our economy. When the U.S.-flag fleet carried 42 percent of our foreign commerce after World War II, a surplus was recorded in our balance of trade in the shipping services. Last year alone, the United States recorded a deficit of $2.8 billion in shipping services. Less than four percent of foreign commerce went on American bottoms. That represents a tremendous flow of dollars out of the United States.

Dollars are not the only thing exported overseas. In the past seven years alone, 50,000 shipyard jobs in the United States were lost. Last year, there were 25,446 American seamen "on the beach" and looking for jobs. That is more than a third of the 67,600 active U.S. seamen. Obviously, the decline of the U.S. Merchant Marine has only served to worsen the unemployment problem which is threatening to choke off any hope of a major economic recovery. Unfortunately, the Administration's programs to date are only going to result in a further exporting of jobs. They appear to have written these jobs off permanently, as they have those in the so-called smokestack industries. In the case of maritime jobs, the Nation cannot afford such policies.

If a war broke out today, our military would be no less dependent on the U.S. Merchant Marine than it was fifty years ago. U.S. vessels would be needed to transport troops and military hardware to the points of conflict. U.S. shipyards would have to meet a tremendous increase in orders for both naval and commercial vessels. Strategic minerals and petroleum products would have to be transported to the United States to meet production demands. The U.S. Merchant Marine is currently falling short of being able to handle these responsibilities.

It has been estimated that the United States needs a shipyard mobilization base of at least 26 yards operating at capacity. Lack of commercial orders in recent years has endangered many of these yards, and as a result, the commercial ship construction business in the United States is in serious trouble. In 1972 and 1973, 91 merchant ships were ordered from U.S. shipbuilders. In 1981 and 1982, the total was 12. Of six U.S. shipyards building merchant vessels, only two have orders extending into 1984, and there are no new orders being placed because of the Administration's policies.

Even now, it would be difficult to meet emergency needs due to the loss of skilled shipyard workers. At a cost of $25,000 to train a skilled shipyard worker, it would be difficult to rapidly increase production. Additionally, the active U.S.-flag private fleet itself now numbers a mere 466 vessels, not even one-third the 1,787 lost during World War II.

We strongly believe that the principles embodied in the Merchant Marine Act of 1936 are as critical today as they were in the years before World War II. We will continue our efforts to come up with new and workable promotional programs and we will support any constructive efforts along the same lines. But we firmly believe that current programs must remain intact until such time as new policies are in place.

Once again, the Administration has shown its determination to gut existing maritime programs in its 1984 budget. The Administration has requested no funds for the construction differential subsidy program and indicated that it will seek authority to allow subsidized U.S. operators to build overseas. It has also requested that a $900 million cap be placed on new loan guarantees under the Federal Ship Financing Fund. And $300 million of that would be permitted only if needed in the interest

of national security. The $429 million requested for operating differential subsidies is only enough to fulfill existing contract obligations.

It been suggested by some that elimination of the CDS program is really not a major move since there has been very little demand for it in recent years in any case. This is a case of getting the cart before the horse. The underfunding of CDS in recent years has lead to the decrease in demand, not the other way around. The policy of this Administration to allow U.S. operators to build and repair abroad in the absence of their supporting CDS funding, has resulted in 36 ships being built in foreign yards, and another 13 ships being reconstructed in foreign yards. This includes both liner and bulk ships. Had the Administration and Congress approved adequate funding for CDS, these ships would have been built in U.S. yards, employing thousands and thousands of U.S. workers. Unless the Congress takes firm action, this is just the beginning. Lykes Brothers Steamship Company, for example, has announced that it plans to build up to ten containerships in foreign yards if the government will pass a bill allowing them to because of the absence of CDS.

On a related matter, we would like to call particular attention to the matter of the funds Sea Land received from the sale of the SL–7's to the Navy. At the time of the sale, it was understood that these funds were to be used for building ships in U.S. yards. To date, it is our understanding that Sea Land has done nothing. We would like to voice our deep concern that these funds may end up being used to build abroad.

We are ardently opposed to the dismantling of the CDS program. The Administration contends that Navy shipbuilding will be sufficient in the coming years to support U.S. shipyards. This simply is not the case. Without commercial contracts, U.S. shipyards will continue to lose capacity and idle workers. In turn, industries which supply shipyards will continue to suffer. It just doesn't make sense for the Administration to cut CDS and permit subsidized operators to build overseas at a time of the highest unemployment level since the Great Depression.

Last year we objected to the Administration's efforts to allow subsidized U.S. operators to build their vessels in foreign shipyards. Allowing these operators to build overseas amounts to subsidizing foreign shipyards and allied industries and exporting American shipyard and allied industry jobs. Therefore we continue to be absolutely opposed to this change in policy.

Earlier this year, legislation was introduced in the Senate which would authorize the appropriation of $200 million for the acquisition, construction, or reconstruction of vessels in U.S. shipyards. Similar legislation was introduced in the House of Representatives to help address the problem of maintaining a domestic shipyard mobilization base. We strongly support these efforts to refinance the CDS program. In fact, we urge this Subcommittee to increase funding in the coming fiscal year to $400 million. Without these funds, U.S. shipyards will be in serious danger of collapse. Because, Mr. Chairman, as I said earlier, there are no new commercial orders for U.S. yards.

In addition, we would urge this Subcommittee to increase the fifty percent cap on CDS funding available for a U.S.-built ship. Given the subsidies that other nations make available, it is simply not realistic to expect U.S. yards to be able to compete within the fifty percent cap. Because, Mr. Chairman, every time we take steps to make American companies more competitive, our foreign competitors increase their supports enough to beat us.

We are also concerned that the Administration is again seeking to put a cap on new loan guarantees under the Title XI mortgage guarantee program. This program, which operates at no cost to the federal govenment, has provided for the construction of thousand of U.S.-flag ships. We see little sense in limiting a program that has provided thousands of jobs at sea and on shore at no cost to the government. Faced with uncertainty regarding loan guarantees and delays in processing applications, American operators are hesitant to build in U.S. yards. Accordingly, we urge that the ceiling be raised to $15 billion.

We would urge that ODS funding be made available for new contracts. While there may come a day when the U.S. merchant fleet is so healthy that it can exist without operating subsidies, that day is nowhere in sight. Until it is, we believe the ODS program should be kept alive and funded.

We would point out that it is our belief that the government must be actively involved in the operation of the U.S. merchant marine. We implore the Administration to reconsider its unilateral policy of eliminating existing support programs prior to the development of meaningful replacements. Their latest legislative promotional proposal spells death to the commercial yards. what is needed is a comprehensive program—one that does not favor one sector at the expense of another. In short, what is needed is a cargo policy program.

Finally, we would like to record our concern that the Administration suspended negotiations on the nenewal of the U.S./U.S.S.R. Maritime Agreement. At this point in time, it seems clear that U.S. industries have been hurt, without the positive foreign policy results that were sought. If grain shipments to the Soviet Union were still avialable, some of the laid up tonnage that was built with CDS funding would be out there making a positive contribution to the economy. We would urge a timely renegotiation of this Agreement.

The Maritime Trades Department stands ready to work in a partnership with government, management and labor to develop policies which will provide the stimulus to restore work in our domestic shipyards. However, until such time as new initiatives are set in place, we urge the Congress to fund existing government programs.

Thank you.

Senator STEVENS. I am going to talk to you all about that somewhere along the line.

Thank you.

Mr. Cecil Keeney, chairman of the board of directors of the Title XI Committee—let us stand in recess for just 5 minutes.

[Recess.]

Senator STEVENS. Thank you very much, Mr. Keeney. Mr. Hutson, nice to see you here.

STATEMENT OF CECIL KEENEY, CHAIRMAN OF THE BOARD OF DIRECTORS, TITLE XI COMMITTEE, ACCOMPANIED BY HARRISON D. HUTSON

Mr. KEENEY. Mr. Chairman, I am Cecil Keeney, president of Trinity Marine Marketing, New Orleans, La. I am here in my capacity as chairman of the Committee for Title XI Vessel Financing. I am accompanied here today by Mr. Harrison Hutson, counsel to our committee.

We thank you for the opportunity to testify today. Our oral statement will be brief. We have previously submitted a written statement which I ask to be included in the record.

Since November 1981, the members of our group have been deeply involved in advocating the continuing and enhancement of the title XI program, including testimony before this subcommittee last March. Because our committee is concerned solely with the title XI program, I will limit my testimony to that subject.

Our group was formed as a result of the imposition of arbitrary annual ceilings by the Office of Management and Budget earlier that year and the need for additional statutory authority. Since our last appearance there has been some recognition by the administration of the merits of the title XI program and we are also pleased with the amendment of section 1103(f) of title XI by the 97th Congress prohibiting any limitation on title XI financing except as contained in an authorization bill.

The claim of authority of OMB to place arbitrary limits on the program has been clearly removed. However, the need to increase the overall statutory authorization on a long-term basis continues and we support section 2 of S. 125, which would increase the statutory authorization by $3 billion without any annual limitation.

The merits of title XI financing and its economic impact enunciated here last year and set forth in the Temple, Barker, and Sloane study included in the hearings of the committee last year remain valid. It is still true that title XI generated 99,000 jobs annually

during the period 1970 to 1981. For each dollar guaranteed, title XI still generates $4.70 in revenues throughout the economy.

Title XI is still crucial to national defense. Title XI still does not have a direct budgetary impact and continues to be paid for by user charges.

Title XI financing continues to be limited to goods and services of U.S. origin. Title XI continues to contribute to capital formation and to the renewal of plant and equipment in the United States. That title XI financing is essentially private and is limited by market forces is demonstrated vividly in the present depressed economic conditions and lack of demand for title XI.

When the market imposes these limits, the utilization of the program is curtailed, whether or not there is an annual ceiling imposed by law. This limitation has worked historically and is working now. Conversely, as the economy recovers, the need for the title XI program will accelerate and new building should not be stifled due to the lack of statutory authority for guarantees.

The timing of market demands does not always coincide with fiscal years, and if annual limitations are to be imposed they should be over at least a 3-year period, with provisions for the carryover of unutilized authority to succeeding years. Uncertainty as to whether adequate guarantee authority will be available can be as stifling as the absence of authority.

In summary, Mr. Chairman, the history of title XI is that it is a sound user financed and essential program, which should be kept in place with sufficient authority to facilitate the economic recovery which we hope is upon us. We urge the increase in the overall statutory authority by $3 billion, as now included in S. 125.

That concludes our oral statement. We thank you for the opportunity to again appear before this committee and for your support in this worthwhile and cost-effective program. We would be pleased to answer your questions.

Senator STEVENS. Well, I do not have any questions. That was my amendment that you spoke of so generously, so if other members have questions, we will submit them to you. We are happy to have your presentation and we will do what we can to make title XI work.

Mr. KEENEY. We appreciate your support, sir. Thank you very much.

[The statement follows:]

STATEMENT OF CECIL M. KEENEY, CHAIRMAN, COMMITTEE FOR TITLE XI VESSEL FINANCING

I am Cecil M. Keeney, President, Trinity Marketing, Inc., the marketing organization for Equitable Shipyards, New Orleans, Louisiana. I am here in my capacity as Chairman of the Committee for Title XI Vessel Financing. This Committee represents a cross section of the U.S. maritime industry—operators of deep-sea vessels, inland operators of tugs and barges, offshore operators of drilling, tug/supply vessels and specialty-construction vessels, large shipyards, small shipyards, labor, and the supply industry serving operators and yards. We thank you for the opportunity to testify here today.

Because our Committee is solely concerned with the historically successful vessel financing guarantee program under Title XI of the Merchant Marine Act, 1936, I will limit my testimony to that subject. In our testimony we will refer to an economic study done by Temple, Barker & Sloane, Inc. of Lexington, Massachusetts, which was provided to the Committee during our testimony last year.

Since our Committee's testimony before this Subcommittee last year, Section 1103(f) of Title XI has been amended to provide that: "No additional limitations may be imposed on new commitments to guarantee loans for any fiscal year, except in such amounts as established in advance in annual authorization Acts. No vessel eligible for guarantees under this title shall be denied eligibility because of its type."

However, the overall statutory authority was not increased. We strongly support Section 2 of S. 125 which would increase the statutory authority by $3 billion without placing annual limitations on its use.

We note that earlier this year the Administration recommended to the House Appropriations Committee that a $900 million annual limitation be placed upon Title XI for fiscal year '84. As we understand the law just above quoted the only annual limitation which may be imposed is one set forth in an authorization act, not in an Appropriations act. Title XI doesn't involve appropriations. As we next explain, we believe it unnecessary for this Committee—the authorizing Committee—to impose an annual limitation at this time.

The merits of the Title XI program which we presented to you last year remain true today. The current depressed economic conditions have reduced Title XI financing activity because, as we pointed out last year, Title XI is responsive to market forces. Economic conditions have resulted in difficulties for Title XI users as with many other segments of the economy but the basic considerations which led us to urge an increase in the authorization last year obtain today.

It is still true that the Title XI Vessel Financing Program, under which the United States guarantees a major portion of the debt to build a new U.S.-flag commercial vessel, has been the primary mechanism for private, independent shipbuilding in the United States. Title XI is not a subsidy. Users of the program sell bonds directly in the private market. Users of the programs pay user fees which (1) cover all the expenses of the Maritime Administration in administering the program and (2) provide a surplus fund for payment of defaults. The existence of this fund, in combination with the first preferred ship mortgage given the government in return for its guarantee, has kept the Title XI program from costing the government anything during its 44-year history while making possible the construction of over 7,000 vessels in U.S. shipyards.

Title XI bond proceeds are still used only for capital equipment, and then only for equipment and materials of United States origin.

The bonds bear the government guarantee but there is no borrowing by the government in connection with the issue of bonds and the government obligation is contigent only. The statutory authorization for Title XI financing does not involve appropriated funds but is rather a revolving guarantee authority.

Let me first address the reasons why an increase in the statutory ceiling is warranted and necessary even though depressed economic conditions have drastically reduced the short-term demand for Title XI financing.

As this Subcommittee knows, the statutory ceiling has been raised at approximately 3-year intervals since 1970 even though within those intervals market conditions caused wide variations in the use of the program. Statutory authorization does not mean that commitments will be issued unless the demand for vessels so warrants, as shown below:

[In millions of dollars]

	Available authority during fiscal year	Commitments issued during fiscal year	Available authority at end of fiscal year
Fiscal year:			
1971	2,117	273	1,844
1972	1,955	648	1,307
1973	1,387	966	421
1974	2,503	1,266	1,237
1975	1,458	699	759
1976	2,856	806	2,050
Transition quarter	2,077	78	1,999
1977	2,166	988	1,178
1978	4,676	430	4,246
1979	4,327	954	3,373
1980	3,620	1,085	2,535
1981	2,611	1,047	1,564

It is precisely because Title XI financing is so responsive to the market that an increased authorization should be in place now for use when the market recovers. Market movements do not coincide with fiscal years. More than $1 billion in commitments were issued in 1980 and 1981 when the market warranted. In view of the economic impact of Title XI financing summarized below, it is clear that the authority should be available when the market recovers.

As we pointed out previously, an increase in the authorization has absolutely no budgetary or economic consequence in and of itself. Neither the Title XI Ship Financing Fund nor the U.S. Treasury itself has any primary or contingent liability as a result of an increase in the statutory authorization ceiling. A federal contingent liability is created only when guarantees are actually issued against the statutory authorization. An increase in the issuance of guarantees will occur only as the market requires and, if the program is to be truly effective, an adequate statutory authorization should always be in place to respond to changing market conditions.

A compelling reason for an increased authorization level is set forth in the Temple, Barker & Sloane study which shows, in summary, that over 1,190,000 man-years of employment, or an average of 99,000 jobs annually, and $76.6 billion in revenues were generated by the Title XI program during the period fiscal year 1970–1981. For each dollar guaranteed (not borrowed) by the Government under Title XI, a total of $4.70 of revenues is generated through virtually every sector of the United States. Three distinct types of positive impacts on the U.S. economy are generated: (a) direct impacts, (b) indirect impacts and (c) induced impacts. Direct impacts are wages, other costs and profits plus the materials purchased by shipyards for Title XI shipbuilding. During the period fiscal year 1970–1981, $16.3 billion (in 1981 dollars) and 277,000 man-years of employment were generated by Title XI. Indirect impacts are the goods and services purchased by suppliers to produce materials sold to shipyards and successive rounds of inter-industry purchases. For each dollar of direct revenues another dollar of indirect revenues is generated; for each shipyard employee, another 0.8 jobs are created in the shipyard support/supply industry. During fiscal year 1970–1981, $16.3 billion (in 1981 dollars) in indirect benefits and 220,000 man-years of employment were generated. The combined direct and indirect impact of Title XI during the fiscal year 1970–1981 period was $32.6 billion and 497,000 man-years of employment.

The induced impact represents the results of the wages of direct and indirect employees when spent by their households and then respent throughout the economy. For each dollar of direct and indirect benefit, $2.70 is generated as induced benefit, and for every direct and indirect job created by Title XI another 2.5 jobs are induced by the direct and indirect incomes generated in the economy.

In addition to the positive impacts of Title XI shipbuilding, the ships built under Title XI themselves have significant positive impacts. In 1980, the Title XI fleet generated an estimated $4.8 billion in revenues and employed about 37,000 people ashore and afloat. This beneficial impact continues, moreover, each year for the entire life of the Title XI-built vessels.

The Title XI program remains vital to national defense in its contribution to the maintenance of a shipbuilding and supplier base which is essential for construction of naval vessels as well as for the construction of vessels which are available as naval auxiliaries. Shipyards cannot maintain their work forces and other facilities while waiting for a naval shipbuilding program.

As noted above, the current level of activity and hence the economic impact of the program has been drastically reduced due to the present recession. Nonetheless, an increased authorization is needed now so that it will be in place when the market recovers. Accordingly, we strongly endorse the provision of S. 125 which would increase the Title XI ceiling by $3 billion.

Shipbuilding is a long lead time industry. A decision to build a ship today means that that ship will not be delivered for some 2 or 3 years and thus long-term financing will not be needed until delivery. Yearly authorizations, unless done 2 or 3 years in advance, destroy the value of the Title XI program to the shipowner. He needs to know when he decides to build the ship if there will be Title XI funds available in the year in which he puts the long-term financing in place. He cannot decide to build the ship, by and large, if he does not know whether the funds are going to be available when it is delivered. The traditional method whereby the Title XI authorization was increased every 2–3 years, thereby allowing the market place to regulate the amount of guarantees issued within any year in the overall statutory ceiling, has worked well.

If for overall credit control purposes, it is necessary to limit on a yearly basis the amount of Title XI funds which may be issued, we urge the Committee to do so on a 3-year basis so that in any given year a company wishing to build a ship can gauge

for itself whether funds will be available in the year in which it needs the money. To that end, in connection with increasing the statutory ceiling, the increase in authorization could be staged in $1 billion/year increments, that is to $13 billion in fiscal year 1984, $14 billion in fiscal year 1985, and $15 billion in fiscal year 1986. That satisfies any need for overall credit controls.

In summary, shipbuilding is a highly capital-intensive, long lead time industry. Financial planning requires some certainty. The traditional Title XI authorization process whereby the authorizing committees have adjusted the statutory ceiling at approximately 3-year intervals has worked well and we would prefer to see that continued. Within the authorization level, the market for capital equipment has set reasonable annual limitations. Annual limitations imposed by law could be disruptive and counterproductive if they do not coincide with market conditions. Since the program has had only positive economic and budgetary consequences, we urge an increase of $3 billion in the statutory ceiling.

Senator STEVENS. We are going to turn now to Admiral Benkert, president of the American Institute of Merchant Shipping and Mr. Joseph Klausner, counsel for the American Maritime Association.

Gentlemen, it is good to see you all. How do you want to proceed?

Mr. KLAUSNER. I will lead off.

Senator STEVENS. Thank you very much.

STATEMENTS OF JOSEPH A. KLAUSNER, COUNSEL, AMERICAN MARITIME ASSOCIATION; AND REAR ADM. W. M. BENKERT, PRESIDENT, AMERICAN INSTITUTE OF MERCHANT SHIPPING, ACCOMPANIED BY ERNEST CORRADO, VICE PRESIDENT

Mr. KLAUSNER. I will venture to take so much of your time as to congratulate the committee on a quite extraordinarily interesting session this morning. It seems to me that I have very rarely participated in a proceeding that canvassed so many of the real issues, not necessarily to their fullest extent, but so far as really is feasible in an oral hearing.

The very narrow point that the Admiral and I are appearing upon, however, fits into what you have been exploring this morning. I think that no one who looks at everything that the Government is doing in shipping today can doubt that something like a dismantling of the whole statutory system in shipping is taking place.

For instance, the Department of Transportation proposes to transfer the whole tanker sector of the American merchant marine from foreign trade to domestic trade. That is fully half the dead weight carrying capacity of the whole American merchant marine—all types of tonnage.

At the same time, there is quite obviously a program, however tentative, to buy out the rest of the foreign trade commitment in the form of canceling operating subsidy contracts by advanced payments. The transfer of so much tonnage to the domestic coastwise trade will substantially undermine, very likely destroy it.

And at the same time, with great respect, Mr. Chairman, the administration clearly favors the export of what is the foundation at present for the domestic tanker fleet.

Senator STEVENS. Well, you know, we said we would only support that in domestic U.S.-built, U.S.-operated, U.S.-manned vessels.

Mr. KLAUSNER. That does not appear in the administration's proposal.

Senator STEVENS. Clearly the statements Ambassador Mansfield made on behalf of the administration in Tokyo to the Kadadran, I put it in the record.

Mr. KLAUSNER. So far as I know of the statements from this side, there is at present no commitment. It may be that it will develop, in which case it will obviously have a modifying effect on what I say. But short of that, in the terms in which the problem has been put to us and in which we have considered it, there is scarcely any doubt that without the limitation you propose the domestic trade will be undermined and it is not too much to say destroyed.

Senator STEVENS. Without that condition, we would not support it.

Mr. KLAUSNER. Well, that is gratifying to hear.

Now against this general program, such as it appears to be, we now have this proposal to repeal the 3-year waiting period for foreign-built tonnage in the preference trades, which are the last fallback for the unsubsidized carriers, chiefly domestic carriers.

Last year when this was discussed there was perhaps some question as to whether this had a doubtful utility. At present we should be inclined to regard it as being the last straw and we strongly oppose the enactment of any repealer of that 3-year provision.

That concludes my statement.

Senator STEVENS. Do you have a statement, Admiral?

Admiral BENKERT. I do, Mr. Chairman, thank you.

I have with me Mr. Ernest Corrato, Mr. Chairman, the vice president of AIMS. You have copies, sir, of the rather brief statement which we have submitted on the last subject which Mr. Klausner just mentioned.

I think the statement itself is quite straightforward and specific as far as the one particular proposal of the administration which was indicated this morning as one of the promotional proposals, sir, of the administration's maritime program.

As Mr. Klausner has said, we object to this proposal strongly and we have indicated in my statement, Mr. Chairman, a number of very specific reasons why this proposal is comletely objectionable to our members. I think I will leave it at that, Mr. Chairman. The statement is short and sweet. I could read it and hit the high points, but I think it is quite apparent.

Senator STEVENS. I have read it and I appreciate your brevity, as a matter of fact.

I do have a basic problem and I would like to ask you gentlemen. Of our bulk fleet, over 60 percent of it is over 20 years old and our drydock fleet, over 50 percent of it is over 30 years old. Now unless we evolve some policy, aren't we by obsolescence going to be noncompetitive?

Mr. KLAUSNER. As a matter of fact, that does not quite convey the quality of the domestic fleet, Senator. The truth of it is that in the last 10 years something on the order of 4 million tons of new ships have been delivered into the domestic trade and at a cost of rather over $4 billion. Some of it is still in the yards being delivered.

The older tonnage to which you refer is being retired by the mere force of the commercial situation and it is not the case that

at least in the domestic trade that you do not have a flexible and responsive system which meets demand and replaces itself.

Senator STEVENS. How are you going to meet the demand of my fisherman who want to take U.S. pollack to the market in the United States without going to Korea and Japan?

Mr. KLAUSNER. I must confess to you that the fisherman's problem is not one——

Senator STEVENS. How about the farmers? Senator Andrews was talking to me about that, and whose amendment is that—Senator Boschwitz's amendment. What are we going to do to meet these very significant sectors in the American economy that claim they cannot compete in the world market because of the burdens placed upon them by domestic policies pertaining to shipping, both foreign and domestic shipping?

Mr. KLAUSNER. The extent to which that is the case seems to be quite limited. Cargo preference has been a sphere in which the taxpayer has met the difference in cost.

Senator STEVENS. No, the taxpayer has never met the difference in cargo preference. In the long run, it has been the producer.

Mr. KLAUSNER. Well, in all the cases with which I have acquaintance all the statutes that set aside preferences outside the domestic trade—you are speaking now of international trade.

Senator STEVENS. The farmers' international trade and our fisheries ought to be in international trade.

Mr. KLAUSNER. In all cases involving the export of grain, the difference in transportation cost is met by the taxpayer by a payment by the DOA. The shipper is getting the world market price in that way because the Government pays the difference.

Senator STEVENS. But that is only for government-impelled cargo.

Mr. KLAUSNER. But that is the only cargo subject to preference in the international trade. Ordinary commercial cargo is not the subject of preference at all.

Senator STEVENS. All right.

Admiral BENKERT. That is correct, Mr. Chairman——

Senator STEVENS. Well, this is something I do not know anything about. I know something about fish and I have witnessed now the growth of the pollack industry. The Japanese and the Russians, they now, as I said, take 3 billion pounds a year, and they take it in Japanese and Korean vessels from our shores to Korea and then around either the Horn or through the Canal into Rhode Island and then they take it around back again.

Sixty percent of it ends up back in California, and if you really want to look at their freight base, it is less, substantially less than the freight base of taking that same pollack from the producing chain after it is caught by U.S. fishermen directly to California. And if you analyze the reason for that, the reason for that is that we have laws that say that we cannot operate vessels that are built on a parity with the ones that our producers are competing with.

I have two questions for you. Are you willing to consider looking at that problem to help us find a way out, and are you willing to take a look at the existing regime of maritime laws in the United States to find out how we could modify them to meet the problems instead of creating more?

Mr. KLAUSNER. There could hardly be any but one answer to that proposal, but there is one thing that I venture to call to your attention. The nature of this shipping problem is complicated by the fact that the only economic justification—or, to put it another way, there is no real economic justification for an American Merchant Marine. If you look at it strictly in commercial terms, its very high costs make it essentially uneconomic.

Senator STEVENS. This committee crossed that barrier a long time ago and so did the Senate, I think. In the interest of national security we want a U.S. merchant marine. The question is who pays the bill and how can we make it so that the success of the industry itself eliminates the burden.

The CCF, you know, by virtue of the fact that it is only advantageous to those people who produce and make a profit and therefore would pay taxes is a unique concept. Senator Magnuson and I worked on that to enable the survival of the fittest to be really true in the maritime field.

Now I have not seen any initiative, as I said earlier, to try and take that to other segments of the industry. We hope that that will happen, but there are other things that ought to happen. The whole concept of European value-added tax, if that concept would apply to a portion of our economy, such as the shipbuilding area, what would be the result?

I think we have to be innovative and I am hopeful that the industry will explore this. I think that the criticism of the administration for trying to find a solution under the circumstances is misplaced. There is no alternative but foreign-built ships at the present time.

Mr. KLAUSNER. Well, Senator, let me make just a small conceptual contribution to your thought on this point. Pray observe that the statutes, although they are founded upon the notion of security as justifying the merchant marine nonetheless exclusively depend upon the market.

You may pay a subsidy, but it is only an equalizing subsidy. It is intended to make the ship compete in the market and in the Jones Act where there are no subsidies it is entirely the market that must bear the cost of the ship.

Now when the market is bad——

Senator STEVENS. Let me tell you it is not the market; it is the producer. When we take our fish to California, we compete with tuna. We compete with foreign processed fish that comes into the market there. If it is a competitive market, it does not absorb that cost. It is absorbed by the producer. As a consequence, we are losing our producers faster than we are losing shipyards.

Mr. KLAUSNER. That is because the producer does depend upon the market and if his costs are too high he is going to be priced out, quite so. Now the point is that that is true in the shipping side as well on the shipper's side and the shipping side, which meets competition. If when the market is bad—and that happens on a cyclical basis. This is an unusually deep one, but it is tremendous drop, but it is, nonetheless, a failure of the market.

I would not say that the existing statutes have failed. They expect the market to be bad from time to time. At such a time a foreigner does not build a ship. He waits until the market im-

proves. I am, therefore, a little bit astonished at the sense of shock that people feel that we are not able to build a ship at a bad time like this.

By the way, Mr. Rice, who ought to know something about these matters, tells me that despite the statement that 36 ships have been committed abroad the fact is that only 2 have been committed, and that was by Mr. Rice himself. The fact is that even with these low foreign costs nobody wants to build. Even with these low foreign costs, it is not the right time to be building.

That is just a question of the market. Now if you recognize that your statutes are pitched to dependence upon the market, you will be less shocked by their occasional apparent failure. It is the economy that is bad and as a part of that the shipping economy is——

Senator STEVENS. We ought to visit sometime. I do not have the same impression. I have the impression that the Korean shipyards, the Japanese shipyards, as a matter of national policy, are turning out vessels without regard to, almost, what they get for them, because as a matter of national policy they have a lifetime employment concept and it would cost them more money to pay the rocking chair money than it does to subsidize the export, no matter what the price is.

So, as a consequence, when we look at them, they build fishing boats. We know what they cost. We have tried to get at it in some way. The difference is we have never really isolated the real true costs of production—I think Mr. Calhoun mentioned some of them—in this country and those differentials and try to solve those problems but on the other hand look at the governmental costs of local taxes.

How many nuts and bolts have sales taxes from how many towns somewhere in Ohio that have to be picked up by someone who is building a vessel that is going to compete in international commerce? In the foreign countries that have the value-added tax concept, all of those taxes come off. They are rebated. So as a practical matter there is a great differential in terms of the burden of the Government imposed upon construction.

We ought to talk about this sometime. I think it is almost high time that we had some sort of off-the-record conferences as far as these are concerned.

I am wondering out loud how much our antitrust policy is impeding the concept of trying to work out this problem. I intend to ask the Judiciary Committee to look at that again because it does seem to me that there is a problem here of just communication in certain segments of the industry that are barred by the antitrust law.

I do appreciate your statement. I appreciate the brevity of it. Admiral, I hope you understand we fully intend to try to get a bill this year.

Admiral BENKERT. Yes, sir.

Senator STEVENS. And we try to establish the dialog that will lead to a bill that the industry as a whole can support and the administration can accept.

Admiral BENKERT. I think if I might add, Mr. Chairman, we would like very much to participate in this dialog or any others looking toward some solution to these problems and again looking toward, hopefully, a bill to come out of this.

[The statement follows:]

STATEMENT OF REAR ADM. WILLIAM M. BENKERT, PRESIDENT, AMERICAN INSTITUTE OF MERCHANT SHIPPING

Thank you Mr. Chairman for the opportunity to appear here today to testify on this matter of critical importance to our members. I am Rear Admiral William Benkert of the American Institute of Merchant Shipping (AIMS), which is a national trade association representing 29 U.S. flag shipping companies which own or operate nearly 12 million deadweight tons of tankers and other ocean going bulk vessels engaged in the domestic and international trades of the United States.

We are pleased to be here today to testify on the administration's maritime promotional proposals. We are, however, going to comment on only one of the five proposals, that is, the provision which would amend the Merchant Marine Act, 1936, as amended, to provide immediate eligibility for reflagged vessesl for the carriage of Government impelled cargoes under section 901(b)(1) of that Act. As we understand section 102 of the bill, it would provide immediate eligibility for certain reflagged vessels for the carriage of Government impelled cargoes. Put another way, a vessel built in a foreign yard and reflagged U.S. would be eligible to carry Government impelled cargo without waiting the traditional and statutory three-year period if such vessel is less than five years of age on the date of current registry under the U.S. flag. In addition, the bill provides that a vessel older than five years, but less than ten years of age on the date of current registry may also have immediate eligibility if the Secretary of Transportation so determines, in consultation with the Secretary of Defense, that the particular ship is necessary for the purposes of national defense. In essence, this questionable provision would permit the immediate eligibility of a reflagged foreign built vessel for the preference trades. We desire to register our complete disagreement with this provision and our total opposition to section 102 of the bill.

This concept is not new and was pushed very hard by the administration and certain elements on Capitol Hill in the 97th Congress. The owners of unsubsidized vessels which traditionally operate in these preference trades and who would be directly impacted by this reflagging and immediate eligibility have expressed their opposition in every forum available in the past.

Contrary to the assertion of the proponents that this concept is necessary to promote a "strong, modern and efficient merchant marine," the proposal will go a long way toward destroying the existing unsubsidized portion fo the U.S. flag tanker and dry bulk fleet. In this connection, it must be mentioned that this immediate cargo preference eligibility would apply to vessels of all types—dry bulk and liquid carriers as well as liners. Our interests are specifically with respect to dry and liquid bulk carriers. We do not want this three-year waiting period elimination applying to these vessels. As to the elimination of this three-year waiting period for liner vessels, we take no position. The possible effects of this legislation as to tankers, where the investment now verges on $4 billion, as well as dry bulk carriers, is considerable. It would, in effect, permit reflagged foreign built tankers and bulk carriers obtained in today's depressed bulk market to compete on a head-to-head basis in these preference trades with U.S. tankers and bulk carriers which have been built at full American costs and for which the preference trades constitute a major fallback market when oil cargoes temporarily diminish, because of the cyclical aspects of the market, or are not available at all.

Our opposition to the elimination of the three-year waiting period has been based over the past several years on several basic factors.

1. There is an adequacy of U.S. flag tanker and bulk carriers in the preference trades which argues against broadening of the supply by introducing reflagged foreign built vessels into these U.S. trades. The world market for both dry bulk carriers and tankers has been extremely depressed for some years now, resulting in bargain prices and in a high level of lay ups and scrappings. Any newly acquired vessel would be virtually unable to compete in the world market under the U.S. flag, with higher operating costs; such foreign built vessels would of course be ineligible for the domestic trade, therefore the only possible market would be the preference trades.

2. Demand for tankers in the U.S. preference trades is limited. The Public Law 480 grain trades declined from over 15 million tons in the early 1960's to 3.2 million tons in1980, and will remain at that level through the end of fiscal 1983. A reasonable estimate of current demand in the portion of the Public Law 480 trade for which tankers are eligible is 300,000 DWT. As to the strategic petroleum reserve (SPR), assuming a full fill rate of 200,000 barrels a day, a reasonable estimate of the

current tanker tonnage demand is about 500,000 DWT. This demand for tankers in the U.S. preference trades can be more than satisfied by the existing U.S. tanker fleet, as a result of a surplus of tankers of up to 100,000 DWT in the Jones Act trades.

3. The supply of U.S. flat tankers for the U.S. preference trades is more than adequate to meet demand. In this connection, MARAD projections show a large surplus of tankers most suited to the preference trades in the 40,000–99,000 DWT category, with 1,841,200 DWT in 1985 in surplus, rising to 2,408,800 DWT in surplus in 1990. MARAD also predicts a domestic trade surplus of 1,104,900 DWT in 1985 for tankers in the 20,000–39,000 DWT range.

4. Permitting reflagged vessels to become immediately eligible for the preference trades will displace American flag vessels which were built at full American costs and which would be unable to offset the competitive advantages of ships that can now be acquired at greatly depressed prices. It seems clear beyond question that unsubsidized vessels cannot possibly compete with vessels whose capital costs are far less, whether because of subsidy or foreign construction.

5. The resulting displacement of U.S. built unsubsidized vessels would jeopardize the title XI mortgage guarantees. Our survey indicates that approximately 86 tankers and bulk carriers would be impacted by this reflagging and immediate eligibility proposal with a consequent title XI exposure of approximately $1 billion.

With respect to lay up of our fleet, as of March 1, 1983, of a private fleet of 568 vessels, 108 ships are laid up, broken down as follows: Three combination vessels, 44 freighters, 3 bulk carriers, 39 tankers, 14 container ships, two tug barges, and three liquid natural gas carriers. Thus, of these vessels laid up, 44 ships (tankers, bulkers and tug barges) of this number are particularly able to carry preference cargoes in full ship load lots in the U.S. trades.

In considering this three-year waiting period for foreign built bulk vessels last year in the 97th Congress, AIMS' position was to retain the three-year waiting period for such vessels in the future. This position was agreeable to all the House conferees. However, in conference, a compromise urged by the administration was accepted which gave priority access to such cargoes to U.S. built and those previously qualified foreign built vessels, assuming they are available at fair and reasonable rates for U.S. flag commercial vessels. The compromise also required that foreign built vessels must be less than three years of age at the time of acquisition to qualify immediately. Finally, any vessel acquired under this temporary authority would be prohibited from transferring out to foreign flag during its useful economic life, unless approved by the Secretary of Transportation under section 9 of the 1916 Shipping Act.

AIMS position remains to fully support retaining the three-year waiting period for such vessels in the future, since the package presented to the Congress by the administration does not reflect the compromise agreement reached last year by the parties concerned.

Thank you, Mr. Chairman.

Senator STEVENS. If any of you have a son that is a Solomon, we need a staff member. These two try, but we still have to try to find some way out of this dilemma. I do appreciate your attendance. Thank you very much.

Our final statement comes from Capt. Robert Flenner, administrative officer of the Maine Maritime Academy, who is appearing at the request of Senators Cohen and Mitchell.

STATEMENT OF CAPT. ROBERT H. FLENNER, ADMINISTRATIVE OFFICER, MAINE MARITIME ACADEMY

Captain FLENNER. Senator Stevens, members of the committee staff, I am Robert Flenner, as you have announced, administrative officer of the Maine Maritime Academy. I am here representing the presidents and the superintendents of the State maritime academies and colleges, particularly with reference to the interest of the five ocean-related schools in New York, Massachusetts, Maine, Texas and California.

We are appealing for your consideration and favorable action on the authorization of an addition to the proposed budget for the

Maritime Administration authorizing an additional $3 million for the support and purchase of fuel for our training ships on their annual cruises.

I have been asked prior to this to try to document why we are asking for $3 million. There is an inherent difficulty in this because our ships have not been operating at their maximum capacity over the last 4 or 5 years, due to the terrible increase in the cost of fuel. We have been forced to cut back on the operation of the ships.

So that although 2-month cruises are still being carried out under the terms of the law, in fact several weeks of those cruises are spent in ports or at anchorages. The ships, therefore, cannot—we cannot tell you at this time exactly how much fuel will be necessary to operate the ships on an optimum capacity.

Senator STEVENS. Let me interrupt, if I may. I do not mean to be rude. I visited, as you know, with representatives of the academies personally and I read your statement. We will put it in the record in full.

I do have some questions. They pertain to the fact that the price of fuel is going down.

Have you measured now what the impact of the request is in view of the declining price of fuel?

Captain FLENNER. Well, the delivered price of fuel has not dropped that much yet. We hope it will continue to drop, but a floor has been put under it and it is still around $30 delivered.

Senator STEVENS. I cannot understand New England. It seems to me that that is what you are talking about—New England delivered prices. Right?

Captain FLENNER. Yes.

Senator STEVENS. I was looking at a national study the other day. I just cannot understand why some of those impacts of the reduced prices are not felt in New England, where the problem is the worst. Have you made any projections if the price does come down, as it has in the rest of the country, whether it affects this demand for assistance?

Captain FLENNER. It would still be a marginal difference, sir, as, obviously, $2, $3 a barrel over 15,000 to 18,000 barrels is going to be—you know, it is going to add up. I cannot do it in my head.

Senator STEVENS. Until the price went up, and the price really has not escalated that much in the last 3 years, it really went up about 6 years ago.

Captain FLENNER. That is correct.

Senator STEVENS. And now it is on its way down, we believe. But, in any event, the documentation you have is in terms of the cost in the last 3 years. How did you absorb that cost previously?

Captain FLENNER. We have had to do it by increasing our students' fees and by adding special fees in addition to the tuition fees for our students, and State appropriations have also increased.

Senator STEVENS. Have you had additional costs within the last 3 years that are totally fuel cost-related?

Captain FLENNER. No; not in the last 3 years. Our actual consumption this last year has increased because we decided that we were shortchanging our students, so that our budget in this last

fiscal year was $375,000 for the operating cost of the ship—that is, for the operating fuel operating cost of the ship.

But that, as I say——

Senator STEVENS. I am not confident, Mr. Flenner, that this is the place that we ought to try to do it. Aren't these maritime academies defense-related?

Captain FLENNER. That is inherent in the act. The Maritime Education and Training Act says that there is an inherent relationship between the Maritime Administration and the Defense Department.

Senator STEVENS. Are you turning out Reserve officers?

Captain FLENNER. Yes, we are.

Senator STEVENS. Well, it just so happens I am chairman of that Defense Subcommittee too. I think maybe we will take a look and see where it properly belongs.

Captain FLENNER. The reason we have approached it in this fashion is that the Maritime Education and Training Act authorizes the appropriation of funds for this purpose, but the administration has not seen fit to include that request in its presentation to the Congress.

Senator STEVENS. I understand that, and I also understand, though, if the chairman of the committee went along with us and agreed to put this money into this committee's allocation we would have to take it out of somewhere else. We would have to take it out of subsidies for merchant marine or something, and it is defense related and I believe it ought to come under the defense budget.

What are you talking about—how much a year?

Captain FLENNER. Three million dollars for the five schools. Obviously, if we do not use that——

Senator STEVENS. That is the interest on the ink on the defense budget.

Captain FLENNER. Precisely. There is no question about that.

Senator STEVENS. I think we ought to find a way to get it in there and I will do my best to help you, but I do not think it ought to impede the limited budget that this committee has, and Senator Cohen is on Armed Services. We have had a conversation. I have had conversations with others who have deep interest in the maritime academies.

We unfortunately do not have one up our way, but I still feel that it is a vital function and I will assist you to see if we cannot get it in the defense budget in some way.

Captain FLENNER. I think if you care to question the ARCO ships that come into your ports, you will find that many of our own Maine maritime men are on board them, so they have a close connection with Alaska.

Senator STEVENS. I am sure that is the case. I do appreciate your waiting and we will move to put it in one place or the other.

Captain FLENNER. I would appreciate that very much, sir.

Senator STEVENS. As I indicated, the record of this hearing will stay open for 10 days. Those who have appeared as witnesses may add to their testimony if they so desire. The staff will determine whether the attachments to any such statements submitted should be included and printed in the record.

Thank you all very much.

[Whereupon, at 12:55 p.m., the subcommittee adjourned, to reconvene upon the call of the Chair.]

ADDITIONAL ARTICLES, LETTERS, AND STATEMENTS

STATEMENT BY PAUL J. BURNSKY, PRESIDENT, METAL TRADES DEPARTMENT, AFL–CIO

Mr. Chairman, I present these views in support of S. 125, the Fiscal Year 1984 maritime construction differential subsidy authorization bill in behalf of the 5 million members of the 22 national and international unions that make up the AFL–CIO Metal Trades Department. A listing of these affiliated unions is attached to my statement. All of the shipyard workers in naval shipyards and virtually all production workers in the major commercial shipyards are employed under collective bargaining agreements negotiated by Metal Trades Department councils.

Last November 16th and 17th, the Department held the second of our national shipbuilding conferences here in Washington. We discussed the declining state of our merchant marine, the erosion of the domestic shipbuilding industry because of unwise, short-sighted policies being pursued by the Reagan Administration, and the corresponding loss of job opportunities for American shipyard workers and in shipbuilding support industries. Some 200 delegates representing production workers in private and federal shipyards met with government officials, naval authorities, Congressional leaders, and officials of industry and maritime unions to consider the crisis in American shipbuilding and merchant marine policies. Our conference voted to petition Congress to act promptly in specific ways to halt this disastrous trend. A copy of the petition is appended to my statement. It has already been signed by over 2,500 shipyard workers from all parts of the country and has been sent to this Committee through the office of the Vice President.

Mr. Chairman, throughout our nation's history we have recognized the absolute necessity of maintaining a strong, skilled, and technologically superior shipbuilding capability. Certainly, one of the primary reasons why America achieved its preeminent role as a world leader is because we have taken care to see to it that our merchant marine and shipbuilding capability was superior among nations of the world. U.S.-flag vessels, with U.S.-flag crews, carried our goods and finished products to the four corners of the globe. U.S.-flag ships of all sizes and types plied the seas and oceans and were welcome visitors in the harbors of port cities of every continent. Our position in world trade and commerce was secure and our people and businesses prospered. U.S. vessels carried not only goods in export and import trade, but also carried the spirit of our great land to all peoples—the spirit of freedom, of hope for a better life, reflecting the abundance of our land, our productive skills, and our free enterprise system.

At the same time we have always recognized the close link that exists between a strong merchant marine in times of peace and the maintenance of a strong shipbuilding mobilization base for the production of the naval fighting vessels essential to our national defense. The great record of accomplishment of our shipbuilding industry and workers during World War II in producing both the merchant fleet and naval strength that made our nation victorious over global aggressors is a tribute to the farsighted policies forged by Congress and presidents of both political parties generations ago.

What has happened in recent years is a tragedy of gigantic proportions. Our merchant fleet has gradually decayed and other nations of the world have moved forward to usurp the leadership once ours. Our position is world trade and commerce has been eroded. Today, less than 4 percent of our products and commodities moving in international trade are carried in American bottoms. It is a startling fact that vessels flying the flag of the Soviet Union today carry more U.S. cargo than our ships do. Sixty-eight of the 71 strategic minerals required in our defense effort are imported over long sea routes from countries of Asia and Africa. Less than 1 percent of the mineral volume is carried by U.S.-flag, U.S.-built ships. We have only 40 registered bulk cargo carriers, essential to our military sealift capability; the Soviet Union has over 600 bulk cargo carriers. American shipyards are starving for construction amd repair work. Over 22,500 jobs in the shipbuilding industry and another 65,000 jobs in shipbuilding support industries have been lost in a span of two years. The shipbuilding industry has been left with no way to reverse this trend.

The industry has virtually no new orders for commercial vessels on its books. Meanwhile, foreign government are making it possible for their shipyards to build and sell vessels below actual costs of production.

In 1980, presidential candidate Reagan expressed concen over the dangerous slide of our shipbuilding and merchant marine and pledged to initiate policies to strengthen the shipbuilding industry here at home and to raise our merchant marine to its high position of world leadership. He pledged a massive build-up of our naval strength and the preservation of our vital shipbuilding mobilization base. What has happened to all these fine campaign promises? During its first two years in office, the Reagan Administration has compounded the major problems of the domestic shipbuilding industry and our anemic merchant marine. One of the first policies advanced by the Administration was to demand U.S. shipping companies be permitted to build their vessel in foreign shipyards without forfeiting their operating differential subsidies. This unwise policy, unfortunately acquiesed in by Congress as part of the mid-1981 omnibus budget reconciliation measure, has been disastrous to the American shipbuilding industry, its workers, and the nation as a whole. Until such "build foreign" authority expired on September 30, 1982, some 36 new U.S.-flag vessels were authorized by the Administration to be built in foreign yards, by foreign workers, at the expense of American shipbuilding companies and American workers. Another 12 ships were authorized to be reconstructed abroad. As a result, many thousands of American shipyard workers suddenly found themselves out of work as our domestic yards lost $1.5 billion in construction and reconstruction projects. Some of the luckier workers found jobs in facilities engaged in the naval shipbuilding expansion. But most did not and were forced to seek non-shipbuilding employment at a time when our national economy was suffering its worst recession in 40 years.

Not only have these misguided Administration policies resulted in the exportation of tens of thousands of American job in shipbuilding and allied endeavors, they have rubbed salt into the wounds by telling U.S. ship companies that they can also have their operation differential subsidies provided by American taxpayers—even if they do build their ships in foreign yards. By forcing private shipyards in this country to shut down for lack of work, and by forcing skilled ship construction workers to find other ways to support themselves and their families, the Reagan Administration has cast grave doubt on our ability to efficiently and skillfully build the very navel vessels on which our national defense depends in an increasing hostile world.

The Administration's decision to eliminate Title XI construction differential subsidies for American shipbuilders, when coupled with the "build foreign" policy, has brought about a disastrous set of conseqences that threaten not only the very existence of what remains of the U.S. merchant marine, but also dangerously weakens our national defense capability. That is why S. 125 is such an important piece of legislation that deserves the strongest possible backing by this subcommittee, the full Committee on Commerce, Science, and Transportation, and the overwhelming approval by the Congress.

As promised, the Administrtion has propcsed—and Congress has responded—to the call for a 600-ship Navy during a 5-year expansion and modernization program. We are proud that many of our unions' members are building these new, modern navy vessels that will carry our country's flag on the high seas. But the Administration's wrong-headed "build foreign" policies and the cancelation of the vital construction differential subsidy program by which American shipbuilders could compete with the nationalize shipyards of other countries have undermined our ability to maintain sufficient American shipbuilding skills that are essential to the successful completion of our navel fleet expansion program.

Mr. Chairman, our national security interests are predicated on the construction of new naval vessels in the most efficient, cost-effective, and most highly skilled manner possible. Yet we cannot depend on this defense work to keep our domestic shipbuilding industrial base healthy, since only 9 of the 26 major American shipyards will be needed to build all the naval ships authorized over the 5-year build-up period. If we let our commercial shipbuilding capability disappear in a wave of bankruptcy, we will find ourselves as a nation at the mercy of foreign shipbuilding cartels. Our skilled workforce in our American shipyards will be decimated and we will have lost much of our capability to respond adequately—in a time of national emergency—to the demands for a cash program to build the numbers and types of ships we may need for survival. The prompt action by Congress in restoring the Title XI ship construction differential subsidy program to full operations level is an urgent priority matter if we are to reverse the present disastrous plunge toward shipbuilding oblivion.

As has been pointed out on other occasions, funds that are invested in the construction differential and operating differential subsidy programs have resulted in economic paybacks that far exceed the amounts invested. For example, the $1.4 billion in the construction differential subsidy (CDS) program during the period 1970–1978 generated construction of some $4.2 billion worth of vessels and marine equipment and provided 136,000 man-years of shipyard empployment. An operating differential subsidy (ODS) of $1.19 billion during the same period generated $11.6 billion in output throughout the U.S. economy while providing 196,000 man-years of maritime industry employment.

The provisions of S. 125 offer an important first step toward the revitalization of the CDS program. We urge, however, that the $200 million amount contained in the bill be increased to at least $400 million because of the CDS program starvation over the past 2 fiscal years and the need to be realistic in terms of potential demand for subsidy funds. We would also urge that the present 50 percent statutory limit be raised to reflect the differential in foreign ship construction costs—raised to perhaps 60 to 65 percent. We also support the provision of the bill to raise the ceiling under Title XI loan guarantees from $12 billion currently to $15 billion.

Mr. Chairman, I strenuously object to the Administration's contention that ships will not be built in American shipyards today and that only through implementation of a "build foreign" policy will we be able to replace older merchant vessels. What they really mean is that American ships will not be built in American shipyards if Congress acquieses to Administration demands to choke off the CDS and ODS programs while renewing the disastrous "build foreign" authority that would destroy our vital shipbuilding industrial base. Congress must reject such Administration efforts.

We have heard much about how foreign shipyards utilize more modern construction techniques and that their workers are more skilled in certain jpobs than American workers. We seem to have lost sight of the fact that American shipyards have dramatically upgraded our own technology in many areas in recent years and that American shipyard workers are second to none in their skill and dedication to building superior vessels. The domestic shipbuilding industrial base must be provided with the needed incentives by our government to step up technological innovation even more rapidly through a comprehensive program of research and development in new shipbuilding techniques and products so that we may compete more fairly with foreign yards. This would give our nation an additional economic dividend. Because of the nature of the work, and of the workforce, such incentives would give rise to a valuable job-training program, as current workers learn the skills of new technology, and new workers are introduced to the crafts and skills of shipbuilding.

Mr. Chairman, the enactment of new CDS legislation with $400 million ship subsidies, along with a 50 to 65 percent limit and an increase in the loan guarantee ceiling to $15 building should be coupled with the forthright rejection by Congress of the Administration's proposed "build foreign" authority and the blocking of proposed Title XI "payback" regulations would serve notice to the world that America has reaffirmed its historic determination in preserving our merchant marine and shipbuilding capability as mandated in the 1936 Merchant Marine Act. I urge that this committee move ahead to provide the far-sighted leadership necessary to achieve these vital national objectives.

INTERNATIONAL UNIONS AFFILIATED WITH METAL TRADES DEPARTMENT, AFL–CIO

International Association of Heat and Frost Insulators and Asbestos Workers.
International Brotherhood of Boilermakers, Iron Ship Builders, Blacksmiths, Forgers and Helpers.
United Brotherhood of Carpenters and Joiners.
International Chemical Workers Union.
International Brotherhood of Electrical Workers.
International Union of Elevator Constructors.
International Union of Operating Engineers.
International Brotherhood of Firemen and Oilers.
International Association of Bridge, Structural and Ornamental Iron Workers.
Laborers' International Union of North America.
International Association of Machinists and Aerospace Workers.
International Molders and Allied Workers Union.
Office and Professional Employees International Union.
International Brotherhood of Painters and Allied Trades of the United States and Canada.

Pattern Makers League of North America.
Operative Plasterers' and Cement Masons' International Association of the United States and Canada.
United Association of Journeymen and Apprentices of the Plumbing and Pipe Fitting Industry of the United States and Canada.
Service Employees International Union.
Sheet Metal Workers International Association.
Stove, Furnace and Allied Appliance Workers of North America.
International Federation of Professional and Technical Engineers.
Upholsterers' International Union of North America.

A PETITION TO THE CONGRESS OF THE UNITED STATES

America's private shipbuilding industry faces near-annihilation under the onslaught of ill-advised actions and policies of our federal government.

At the very time when our country looks forward to rebuilding and strengthening our naval power, the skills and capital facilities needed to build that power are being dissipated, incentives to private enterprise to modernize facilities are being withdrawn, and the productive future of a highly skilled workforce is being terminated.

At a time of deep recession in the United States, with near-record unemployment ravaging our economy, and with the worldwide ship construction industry in stagnation, our government has seen fit to take the task of building and maintaining the American merchant marine away from American shipyards and shipyard workers and award it to foreign countries. Only a fraction of American shipyards and their workforces will be able to survive this starvation of opportunity, by turning to complete dependence on proposed naval construction.

This is an immediate problem, not a cry of doom for the future. In the past few months alone, our national administration has authorized the construction abroad of 36 new U.S. flag ships and the reconstruction abroad of 12 others. By these actions, American shipyards were deprived of almost $1.5 billion in construction projects, and 22,500 shipbuilding jobs, together with 65,000 jobs in allied endeavors are now lost to American workers forever. In addition, the administration is urging the Congress to take actions that will encourage the export of even more ship construction projects and jobs, regardless of the enormous damage that will ensue to our private shipbuilding industry and its workers.

These proposals, if enacted, will adversely affect the economy of every one of the United States, do serious and immediate damage to the economic futures of thousands of working people, and undermine drastically our national ability to construct and maintain a modern navy.

THEREFORE, BE IT RESOLVED, that the Second Biennial National Shipbuilding Conference of the Metal Trades Department AFL–CIO, urges the Congress to continue national support of our private shipbuilding industry at the highest possible levels, by continuing to provide incentives for construction and repair of our merchant marine in American shipyards and by retaining in American hands the vital strategic control over American shipping routes and shipping policy, and

BE IT FURTHER RESOLVED, that this resolution be presented as a petition to the Congress on behalf of American shipyard workers who proudly offer their skills and experience on behalf of our nation's well-being in the construction and maintenance of a strong and essential Merchant Marine and U.S. naval fleet, and

BE IT FURTHER RESOLVED, that all delegates to this conference be afforded the opportunity to sign this resolution in recognition of its importance to our national welfare.

STATEMENT OF MICHAEL KLEBANOFF, PRESIDENT, AMERICAN MARITIME ASSOCIATION

My name is Michael Klebanoff. I am President of Ogden Marine, Inc., and I appear as President of the American Maritime Association, which is an association of unsubsidized carriers, including companies that have operated in the coastwise tanker trade for many years and have invested nearly a billion dollars in new, modern ships. A list of our members is provided.

It has not been the practice of the Association to testify on authorization bills. Much of the content of such bills has naturally been subsidies, in which as unsubsidized carriers we have normally only a citizen's general interest. We have asked to be heard on this occasion because we believe the Committee should consider this particular budget as part of a steadily unfolding policy that has never been publicly acknowledged, and certainly not debated and discussed.

That policy seems to be the liquidation of the American merchant marine.

Step by step, the structure of national shipping policy embodied in the maritime laws is being dismantled. This bill is a measurable step in the process.

I invite the Committee to look at the pattern as a whole.

1. The foreign-trade fleet of the United States consists of some 8-8½ million dwt. By a recent order, the Department of Transportation has proposed to allow the entire tanker constituent of this fleet, which is about 4 million dwt, to transfer to the domestic trade. In one step, half of the fleet, most of whose units are gainfully employed there, will be withdrawn from our foreign trade.

2. Under this budget, a major start will be made on buying out the remaining half, which is the liner trade, under conditions that seem to require further service for not more than five years. It has been announced that neither construction nor operating subsidy will henceforth be awarded.

3. The consequences of flooding the Alaskan trade with anything like 4 million tons will be devastating to that trade, which uses about 6.5 million tons, and to the whole coastwise trade, which consists of 10.5 million tons. I shall merely say here that even if only a major fraction should transfer, all independent tonnage will be driven out of the Pacific basin, and that for the remaining nonproprietary Alaskan trade on the Atlantic side of the Canal, over 33 million tons will be pursuing business requiring less than 1 million tons.

4. At the same time, the Administration has asked for release from statutory limitations on shipping Alaskan oil to Japan. perhaps the effect of such a step would neutralize the proposal to transfer ships to the coastwise trade: there would be nothing for them to carry.

5. To round off, comes now a proposal to allow foreign-built tonnage to carry preference cargo without waiting the statutory 3-year period, thereby cutting into or pre-empting a historic fall-back trade of the coastwise fleet.

Any one of these proposals alone would be portentous. Taken together, they constitute a formal program to eliminate the American merchant marine.

This fact seems to me more important than the consequences to any particular shipping sector.

According to the statutes, a basic reason for having a flag fleet is to have always at hand what in the past has been a critical instrument of defense.

Has the relation between shipping and national defense disappeared? has it been determined that ships are not needed to supply distant battlefields and to maintain a national economy at war? Every public utterance of the Defense Department is to the contrary. The Secretary of Defense, the Joint Chiefs, the commanders supervising our sea logistics have told Congress within the year that 95 percent of all military supplies—and they are vast—must move by sea.

Is liquidating the merchant fleet consistent with that conclusion?

In the great wars of this century we have had to build massive fleets not only for ourselves but for our allies: has it been determined that this history will not repeat itself, and that we can safely rely on foreign sources of shipping? If not, is it wise to deprive our merchant shipyard base not only of its traditional place in building for our foreign trade but also of its preponderant and, in fact, only remaining market in coastwise shipping?

These are capital issues that rise above the consequences to any particular company such as my own, which has invested hundreds of millions in American shipping, and which now sees the whole investment threatened by an abrupt change of the rules that amounts to a breach of faith on the part of the United States government.

We undoubtedly stand at a crossroads of national policy in shipping. The historic power to appropriate money gives the Congress the power to decide how it is to be spent. Here is the moment for your Committee to examine what is planned before the country is irreversibly committed, without knowing it, to the elimination of the merchant marine.

American Maritime Association Membership List

American Foreign Steamship Corp., Anchorage Tankship Corp., Cambridge Tankers, Connecticut Transport, Inc., Cove Shipping Inc., Delta Steamship Lines, Inc., First Shipmor Associates, Fourth Shipmor Associates, Hudson Transport, Inc., Intercontinental Bulktank Corp., Juneau Tanker Corp., Merrimac Transport, Inc., Montpelier Tanker Co., Mount Vernon Tanker Co., Mount Washington Tanker Co., Natalie Tankships Corp., Ocean Bulkships, Inc., Ocean Transportation Co., Inc., Ogden Challenger Transport, Inc., Ogden Champion Transport, Inc., Ogden Clover Transport, Inc., Ogden Leader Transport, Inc., Ogden Traveler Transport, Inc., Ogden Wil-

liamette Transport, Inc., Overseas Bulktank Corp., Overseas Oil Carriers Corp., Potomac Transport, Inc., Rio Grande Transport, Inc., Second Shipmor Associates, Third Shipmor Associates, Transbulk Carriers, Inc., Transport Commercial Co., Vivian Tankships Corp., and Wabash Transport, Inc.

The following liner companies are also members but are not concerned in the present discussion: Navieras de Puerto Rico and Sea-Land Industries, Inc.

STATEMENT OF PETER J. LUCIANO, EXECUTIVE DIRECTOR, TRANSPORTATION INSTITUTE

Mr. Chairman and members of the subcommittee, my name is Peter J. Luciano. I am Executive Director of the Transportation Institute, a research and educational organization dedicated to the preservation of a strong U.S.-flag maritime industry. Our 174 member companies operate vessels in the nation's foreign and domestic shipping trades, including the Great Lakes and the inland waterways.

I appreciate the opportunity to express to the members of this Subcommittee the Institute's strong support for full funding of the essential maritime programs under the auspices of the Maritime Administration. These programs represent the comitment to a strong and healthy merchant marine made by previous Congresses through the enactment of the Merchant Marine Acts of 1936 and 1970. We know you have heard in the past, and will again in the future, a number of viewpoints regarding the level and focus of government support for the maritime industry. We believe that an objective analysis of national interests make an irrefutable case for funding legitimate maritime needs. An unwavering commitment of financial resources will provide the basis for the confidence, long-term planning and perserverance needed to see this essential industry through the current economic doldrums. Without such a commitment, the shipping sector will not be positioned to take advantage of an improved economic climate. The choices are few, we can ignore the costly facts of life in the maritime world, or we can wisely invest in the future, thereby equipping ourselves to challenge foreign competitors who are granted all the advantages their governments can offer.

The task before this Subcommittee in developing a comprehensive maritime policy has been and continues to be a difficult one and the Transportation Institute stands ready to assist this body in any way possible in restoring the U.S. shipping sector to the robust engine of commerce and security it once was and deserves to be again. To this end we trust that everyone concerned will recognize that a maritime policy worthy of the name cannot be had easily or without cost. We can only hope that the discussions which have taken place and the recommendations that you will make in the future will be responsive to that requirement and will enhance the future growth of the industry.

As you consider the fiscal year 1984 maritime authorizations bill, it is important to review recent events and trends in the maritime experiences of other nations and to consider the maritime future of this country in light of those observations.

Foremost is the example of the Falkland Islands crisis. Several reasons have been suggested as to why Argentina considered armed aggression to be a viable resolution to the problem. One of the most important but least understood of those reasons can be found in the recent history of Britain's maritime policy. The precipitous decline in all sectors, shipping, shipbuilding and repair, and among the pool of trained, available seagoing personnel pointed to glaring deficiencies in British posture. The appearance that Britain did not have the maritime resources to bring its military force and the will of its people to bear on a distant inhospitable locale led inevitably to that conclusion and invited confrontation. The perception of inadequacy would not have taken root in the 1960's when 15 percent of the world fleet sailed under the British standard, nor even as late as the mid 1970's when the figure was still above 10 percent. By May 1982 however, the level had been reduced to a meager 4.1 percent. Any further decline and the lack of adequate sealift would have kept the British response to the crisis firmly within the realm of hollow threat. It is a disturbing comparison to note that the U.S. share of the world fleet is only 3.2 percent, nearly one-fourth less than British assets which were strained to the maximum in supporting the operation.

Additional policies not widely covered by the general interest media are developing in other countries and can tell us much about the role those nations see for maritime industries in their national futures. The People's Republic of China is currently expanding and modernizing all segments of its maritime industry. A fleet which has nearly doubled in the recent past and plans for the addition of 200 modern vessels along with a vast increase in shipbuilding capacity are graphic examples of the Chinese government's high priority in this industrial sector. China

aspires to be a world rather than a regional power. It clearly sees the example of the Soviet Union whose rise to superpower status corresponds closely with achievement of Soviet maritime superiority. The Chinese intend to follow the same course, and the fact should cause policymakers in this country to sit up and take notice.

Even in chaotic Iran, fragmented by war and revolutionary violence, a shard of common sense maritime policy can be found. Despite the current oil glut, Iran has been purchasing additional tanker tonnage in order to insure its sources of revenue from petroleum exports. With the threat of military strikes looming over all of its ports and oil terminals, Iran knows that vessels flying other flags may suddenly refuse to provide service if the likelihood of war damage or casualty increases. Thus by securing adequate tanker assets upon which they can depend, they are attempting to insure their economic viability.

What can the U.S. learn from these developments? From the Falklands crisis we should realize that any future conflict in which we are involved may not be cast in black and white but in shades of gray. It is possible for a minor military power to seriously threaten the interests of a major power. If world opinion were divided as in that situation, the United States would be left to its own devices with otherwise friendly nations unwilling or unable to help fill a maritime void. Also, we should realize that the cost of expanding our merchant fleet and shipbuilding base as additional deterrents to aggression pales in comparison with the funds required to fight a minor war for even a short period of time. Finally, we should not delude ourselves into thinking that our merchant marine is our "fourth arm of defense" if we allow it to atrophy to the point of uselessness. Because if we continue to do so, one day a potential aggressor may have that perception of us, and sadly, it may be accurate.

From the Iranian example, we should realize that in times of crisis or conflict the only way to insure absolutely adequate levels of essential imports and exports is in U.S.-flag vessels with American crews who would serve in any crisis situation, bar none. We should know what the Chinese have learned, that to be a true world power a nation must be a true world maritime power. If we wish to maintain U.S. superpower status, we should strive to regain super maritime status.

Once again, we wish to thank you for this opportunity to express our views on maritime funding for fiscal year 1984. We pledge our continued cooperation in the Subcommittee's efforts to insure a strong maritime industry capable of fulfilling this Nation's economic and defense goals.

STATEMENT OF JULIAN H. SINGMAN, PRESIDENT, MARITIME INSTITUTE FOR RESEARCH AND INDUSTRIAL DEVELOPMENT

Mr. Chairman and Members of the Subcommittee: My name is Julian Singman. I am President of the Maritime Institute for Research and Industrial Development (MIRAID). MIRAID is a non-profit corporation of International Organization of Masters, Mates and Pilots signatory companies. Our membership includes companies operating United States-flag vessels in all aspects of our nation's foreign and domestic trades. Our Board of Directors includes executive officers of companies broadly representative of our waterborne international and interstate commerce as well as the Presidents of key maritime labor unions and the AFL–CIO itself.

We appreciate this opportunity to present the views of our member companies on the coming fiscal year budget proposal for maritime programs under the Maritime Administration.

We are pleased that the Administration has again chosen to honor its existing contractual obligations under the operating differential subsidy program. It is our understanding that the fiscal year 1984 request of $401.3 million is considered by the Maritime Administration to be sufficient to meet its continuing obligations to United States-flag vessel operators engaged in the essential foreign commerce of the United States.

In evaluating the role of the operating differential subsidy program in our maritime promotional framework, we should bear in mind that it has been formulated, not as is often charged to guarantee profits, but rather as an equalizer. ODS is designed to enable American vessel operators to compete equitably with foreign operators who, for the most part, receive financial assistance from their own governments and who are subject to the same type of restrictions and regulations as are American operators. In fact, it is becoming increasingly a fact of life that American operators must compete more and more with foreign state-controlled fleets, stringent cargo reservation laws, and economic incentives for foreign national flag fleets.

We must, therefore, strongly resist budgeteer charges that the operating differential subsidy program is a "grant" intended to keep an industry going. We must see

to it that the uninformed realize that it is an equalization program to make it possible for American vessel operators to compete with foreign subsidies, foreign maritime discrimination and foreign fleets of state-controlled economies. Until such time as the United States adopts and implements a national cargo policy which results in the carriage of a substantial portion of American foreign trade on American ships, it is imperative that the operating differential subsidy program be kept in place and even expanded.

The operation of American vessels generates tax revenues for the United States Treasury in the form of corporate and individual tax payments. Also, additional American vessels will mean additional jobs for American maritime workers and retention of a reserve pool of trained manpower available for national emergencies. Unemployment in our industry has been increasing. According to the Maritime Administration, there were 19,385 oceangoing shipboard jobs on privately-owned American vessels as of December 1, 1980. One year later, the number of jobs dropped by 1,598 to 17,787. In July, 1982, the figure again decreased to 16,708 seagoing jobs. On February 1, 1983, according to the Maritime Administration, there were 15,576 oceangoing shipboard jobs in the private American merchant marine. In short, there was a loss of 3,809 seagoing jobs between December 1, 1980 and February, 1983.

Finally, the greater utilization of American vessels for the carriage of American foreign trade will improve our nation's balance of payments. A decrease in this deficit would help strengthen the dollar and would help offset the effects of lowered interest rates.

Again, let me assure the Subcommittee, Mr. Chairman, that we do understand the budgetary constraints upon the Congress and the resultant reluctance to make available additional funds for new operating subsidy contracts. But if holding that line is inevitable, then it is absolutely essential to the future operation and expansion of the American merchant marine, and indispensable to our economic and defense planning, that new and alternative approaches to the existing subsidy framework be considered and implemented to make it possible for our American ship operators to compete on an equitable basis with their foreign counterparts. We have suggested some alternatives including improved depreciation rules, other tax incentives, broadened usage of CCF funds and tightening cargo preference laws. These and others must be forthcoming soon—before it is too late.

One possible means of increasing the amount of funds available to American operators would be to exempt from Federal income taxes wages earned by American workers employed on U.S.-flag ships while on Foreign Articles. With such an exemption, wages could be rolled back so that each seaman could gross less, take home the same, but each operator would be required to pay less. This in turn could mean a smaller operating subsidy payment per vessel. While this proposal might seem revolutionary, it really is no more than a fair and reasonable extension of the principle embodied today in the Internal Revenue Code, which exempts a portion of income earned abroad by Americans living abroad.

This proposal, while new to the United States, has been used by other maritime nations. Norway, Finland and Denmark, for example, have special provisions for the tax treatment of merchant seamen. Most recently, the Swedish Shipowners' Association proposed to its government the removal of all income taxes on merchant seamen and officers. We are presently reviewing this proposal with our member companies and with union representatives to ascertain its ultimate workability.

Another area which greatly concerns us relates to vessel construction and conversion for American operators. Congress responded to the Administration's failure to support new construction subsidy funds by granting ODS operators limited authority to have work performed in a foreign shipyard. That authority, however, expired September 30, 1982, and was not extended by the 97th Congress. We fully support the maintenance of a domestic shipbuilding base for commercial vessel conversion and construction, but we also strongly urge that steps be taken to allow American operators to modernize and expand their fleets pending the development of a U.S. shipbuilding program. American flag operators should not be allowed to become the innocent victims of the Administration's budget cutting in the ship construction area. We, therefore, urge this Subcommittee to extend the existing authority for foreign conversion and shipbuilding and we urge that this be done soon—not at the last minute—so that companies can engage in long-range planning.

In a related matter, we urge this Subcommittee to make the Capital Construction Fund available to American operators regardless of where their vessels are built. If such action is not taken our tax law—Subpart F of the Income Tax part of the Internal Revenue Code—will, because its benefits are available only to foreign flag

vessels, continue to encourage the growth of a foreign-flag, rather than an American fleet.

From our perspective, the ability to accumulate capital is essential if American new and existing operators are to modernize and expand the American flag fleet. This can be better achieved if American operators are able to utilize their Capital Construction Fund to construct, reconstruct or acquire vessels abroad, document them under the United States-flag and man them with American crews.

In conclusion, we greatly appreciate your support, Mr. Chairman, and the support of your Subcommittee for the American merchant marine. We look forward to working with you in the months ahead.

U.S. SENATE,
Washington, D.C., April 12, 1983.

Hon. TED STEVENS,
Chairman, Subcommittee on Merchant Marine, Committee on Commerce, Washington, D.C.

DEAR MR. CHAIRMAN: For the reasons outlined in the attached letter, we believe it is very important that representatives of the state maritime training academies present testimony to your Committee prior to its mark-up of the fiscal year 1984 MARAD Authorization bill.

Accordingly, we respectfully request that you permit the state academies' representatives to appear before the Committee at the earliest possible date.

With highest regards.

Sincerely,

GEORGE J. MITCHELL,
U.S. Senator.

WILLIAM S. COHEN,
U.S. Senator.

STATE UNIVERSITY OF NEW YORK,
MARITIME COLLEGE,
Fort Schuyler, Bronx, N.Y., March 31, 1983.

Hon. TED STEVENS,
Chairman, Subcommittee on Merchant Marine, Committee on Commerce, U.S. Senate, Washington, D.C.

DEAR SENATOR STEVENS: As Rear Admiral Ted Rodgers of Maine Maritime Academy and I noted during our visit on 1 March, the State Maritime Academies—Maine, New York, Massachusetts, Texas, California and Michigan—have been struggling to get support from the Congress for a number of years. The partnership between the Federal government and the several states which support the academies constitutes a close, mutually beneficial relationship. This relationship was established many years ago and gives a formal expression in the Maritime Academy Act of 1958 and the Maritime Education and Training Act of 1980. In keeping with this relationship, the Federal government has provided a training vessel to each school and established an active duty contingent of naval personnel to teach naval science courses. Other forms of government support are partial maintenance of the training ship, an annual grant of $100,000/year and a student incentive payment, the same as for ROTC programs for uniforms, books and subsistence to a limited number of students.

The single most urgent need that faces the state academies today for which we are appealing to the Congress is legislation that will ensure the assignment of a suitable training vessel to each academy and an appropriation for fuel required to operate these ships on training cruises. The present legislation is permissive and states that the Secretary (Transportation) may provide a ship and may provide fuel for training cruises. To date the Administration has not seen fit to request funding for the fuel and although we appeal to Congress every year partial funding has only been provided twice. We seek to have the "may" changed to "shall" in the 1980 Act.

Now we have been told that the academies must share fewer training ships in the future. On the surface this would appear to be feasible but in fact it completely undermines quality and safety in our programs. Furthermore, it would impose additional time requirements on us and there is no time in our already full routine.

These problems are exacerbated by the federal insistence that we comply with the impending ratification of the International Maritime Oganization Standards of Training, Certification and Watchkeeping for Seafarers (IMO-STCW). The major impact arising from these new standards is the requirement that deck cadets have one year/or an acceptable equivalency at sea. This standard, one which the state

academies had no voice in preparing, is apparently going to be levied on us by the Federal government with no additional assistance.

State academy deck cadets under present long-standing regulations spend a little over six months at sea on their training ships. An increase in sea time or equivalency, with which we have to comply, will cost money whether it is for more time at sea, on simulators or whatever.

The House Merchant Marine and Fisheries Committee has added an amendment to H.R. 2114, authorizing additional monies to the Maritime Administration budget for the program at the State Maritime Academies to authorize the purchase of fuel oil for operating the training ships. This represents a very important step forward in our campaign to provide an equitable Federal contribution to our program as the Administration has not deemed it feasible to include such funds in the annual budget requests submitted to the Congress.

We need Senate support. If at all possible, it would be greatly appreciated if representatives of the State Academies could be invited to appear before the Subcommittee on Merchant Marine at a convenient juncture in your deliberations. We would like to meet with you and your staff ahead of time to discuss these issues. This is a matter of the greatest concern to the continued well being of the State Academies and we are anxious to do all we can to assure success in our efforts.

Sincerely,

F. H. MILLER,
Rear Admiral, USN (Retired).

JOINT MARITIME CONGRESS,
Washington, D.C., April 13, 1983.

Hon. TED STEVENS,
Chairman, Subcommittee on Merchant Marine, Committee on Commerce, Science, and Transportation, Washington, D.C.

DEAR SENATOR STEVENS: The Joint Maritime Congress appreciates the opportunity to express its views on S. 1037, the Maritime Administration's authorization bill for fiscal year 1984, and offers the following written statement to be included in the hearing record.

As a research and educational organization representing more than 100 U.S.-flag ship operating companies, the Joint Maritime Congress has long recognized the importance of federal programs directed toward closing the disparity between the United States merchant fleet and those of our trading partners. Our association and its members have closely followed each successive MarAd budget and are eager to participate in the current review.

The Joint Maritime Congress is, however, aware of the strict budgetary limitations that have been placed on most federal spending and the calls for increased cuts. Competition is extremely keen for money. We have approached this situation over the past two years with a sense of disappointment tempered by realism, and agreed to regard our industry's share of spending reductions with the understanding that essential maritime programs necessary to support the U.S.-flag fleet would not be abandoned.

Alternatives to subsidies have been offered by the Administration. There is none as yet on the books. MarAd Administrator Admiral Harold E. Shear testified last month before the House Merchant Marine and Fisheries Committee that his agency's fiscal year 1984 budget is premised on legislation that will grant build and acquire abroad authority for U.S. -flag ship operators without affecting their operating differential subsidies. Such legislation, we understand, was in draft form until late last week and was finally introduced yesterday as S. 1038. The Joint Maritime Congress finds this budgetmaking by assumption alarming as the U.S.-flag fleet further distances itself from the subsidy programs of the past 40 years with no tangible, workable alternative in sight.

In the context of subsidy programs being either eliminated *in toto* or having arbitrary ceilings placed on them, the Joint Maritime Congress would like to address these critical issues: the Operating Differential Subsidy Program (ODS), the Title XI Federal Ship Financing Program, and the Build Abroad Provision of the fiscal year 1983 MarAd authorization bill, (which was eliminated in the Continuing Resolution last year) and various investment and promotional programs.

The $439,710,000 requested by the Administration for fiscal year 1984 operating differential subsidy outlays will fund the continued operation of all U.S.-flag ships currently engaged in foreign trade under long-term subsidy contracts. This figure, we believe, is the bare minimum that should be devoted to the program. We would

like to see a larger sum but we realize that sacrifices must be made, and are being made, across the entire range of programs in all sectors funded by the U.S. Government. This minimum funding level enables the operators of 151 vessels—30 liners and 21 bulk ships—to achieve cost parity with their foreign competitors. The importance of the continued operation of these ships to the security of the United States must be stressed. Over 80 percent of these vessels are the types of greatest military value and utility—Roll-On/Roll-Off vessels, non-jumbo tankers, refrigerated cargo ships, partial containerships and break bulk vessels—and make a significant contribution to the nation's military sealift capability. Any curtailing of ODS outlays would not only undermine the United States military posture but would sap the U.S. merchant fleet's commercial strength, which has been already eroded to the point where our vessels carry an abject of 3.6 percent of our entire oceanborne trade and less than two percent of essential strategic minerals.

The Joint Maritime Congress is troubled by the Administration's steadfast refusal to enter into any new contracts because ships constructed *today* to replace the aging vessels in the U.S.-flag fleet can carry the *same cargo* in the *same time* as three or four older vessels with greatly reduced operating costs. Not to take advantage of this maritime fact of life flies in the face of efficiency and modernization and prevents our fleet from becoming as healthy and competitive as we believe it can be. The epitaph of such a national maritime policy eventually will be: "And then there were none."

The second critical issue is the Title XI loan ceiling, which has become the unwarranted target of budget cutters. For fiscal year 1984, the Adminstration has recommended a $900 million limitation for new loan guarantee commitments, $300 million of which is "to be used only if needed in the interests of national security." This is substantially less when one considers that a $950 million ceiling was set for fiscal year 1983 with no such restrictions.

The constant buffeting that Title XI undergoes is baffling to the Joint Maritime Congress and its member companies. There appears to be little effort on the part of the Administration to distinguish the ship financing loan guarantee program from other loan guarantee programs. They are all lumped together, and one of the strongest characteristics of Title XI is lost in the crowd: it is a proven moneymaker for the Federal Government.

The program generates a yearly income through guarantee fees and investigation charges paid to MarAd by Title XI applications and recipients. That annual income comes to approximately $50 million—$46 to $48 million of which goes into a revolving fund. All defaults (there have only been 12 throughout the program's 46-year life) have been absorbed in their entirety by the fund. Furthermore, annual loan repayment, averaging $400 million, reduces the level of government-guaranteed debt. Since its inception, the Title XI program has cost the Federal Government *less than any other* federal guarantee program, and it has helped build the ships and provide the jobs our country needs.

There is no reason to place such low levels upon the Title XI program, for it does not require the outlay of a single dollar. And, unlike other federal credit programs, it is not burdened by high administrative costs; it does not distort the credit market; and it is not a deferred subsidy.

Any further attempts to impoverish Title XI commitments will not only ravage U.S. shipbuilding capability but will result in job and revenue losses which the economy can ill afford to bear. National security would also suffer greatly. The Committee for Title XI Vessel Financing stated in February 1982: "(The Title XI Program) has also increased the fleet of modern, efficient ships to support U.S. military logistical requirements. By promoting marine construction in U.S. yards, the skills, facilities and procedures to build ships effectively are preserved and the materials and services necessary to design and construct naval ships are supported." Any decision to restrict the amount of financial backing for the Title XI program could be disruptive and counterproductive.

The Joint Maritime Congress believes that these pre-fixed annual commitment ceilings should be abandoned to allow Title XI to serve the market in a strong and responsive manner especially for the construction of merchant vessels equipped with national defense features. We further favor an increase in the statutory limit on total guarantees to permit this program to grow, not contract. The magnitude of the economic and defense benefits generated through the Title XI program should be foremost in the minds of the Members of the Subcommittee when they weigh the proposals that could reduce its effectiveness.

Especially important is the build and acquire abroad program which, as earlier stated, has been termed the premise for the MarAd fiscal year 1984 budget. The provision was accepted by the House and Senate conferees in the fiscal year 1983

MarAd authorization bill but not included in the Continuing Resolution. The Joint Maritime Congress strongly supports DOT Secretary Elizabeth Dole's initiative to extend the build and acquire foreign provision as embodied in S. 1038, which allows U.S.-flag ship operators to construct and acquire abroad and still be eligible to receive operating differential aubsidies. We further advocate the provision of the legislation which would amend the Tariff Act so that the current 50 percent *ad valorem* duty no longer applies to foreign repairs made to U.S.-flag vessels.

Although the Joint Maritime Congress is sympathetic to the plight of U.S. shipyards, it also realizes that due to the enormous difference in costs and the absence of construction subsidies, the U.S.-flag operator has no choice but to look abroad to construct and acquire new vessels to bring the U.S. merchant fleet on a competitive footing with foreign-flag fleets. We support other measures, however, to maintain the U.S. shipbuilding base because this base is important for our national security. For example, we recommend improved productivity, reduction in government regulation and shipyard specialization.

Our advocacy of build and acquire foreign is premised in part upon the Administration's decision to reduce and then eliminate construction differential subsidies. Frankly, we do not see anything which would indicate a reversal of this stance and the hardship on operators facing the prospect of no CDS funds whatsoever is acute. Confronted by the overwhelming ship construction costs at home, United States operators have no place to go but abroad as demonstrated by the 36 new ships authorized to be constructed abroad under the temporary authority. Build abroad also means the creation of seafaring jobs—jobs that simply would disappear if these ships and those in the future could not be built in foreign yards. It would be insanity to throw away this, the most feasible plan to boost our merchant fleet and generate new jobs. The Joint Maritime Congress therefore supports a permanent authority for U.S.-flag subsidized vessel operators to engage foreign shipyards to construct, reconstruct or repair their vessels.

One deep concern we do harbor about the build foreign provision is the form it is starting to take. Traditionally it would be placed within the MarAd authorization bill. However, the Administration is offering a separate piece of legislation containing it. We request that the Subcommittee seriously examine the wisdom of enacting an authorization bill and then taking up the premise upon which it was drafted. The build abroad provision is a controversial issue and no one can promise that it will be passed. We believe that it is vital to avoid a situation where the fiscal year 1984 MarAd authorization bill is passed and the build abroad legislation is defeated. By the Administration's own admission, the two are tied together. We recommend that practice proceed from logic and that build and acquire abroad not be left an isolated, vulnerable position. To do otherwise could spell disaster for any serious attempt to rebuild the U.S.-flag fleet.

However, the old adage that cargo moves ships still rings true. Measures to increase the amount of cargo carried on U.S-flag ships must begin with a clarification and reemphasis of the application of existing cargo reservation measures. Contained in S. 1038 are provisions encouraging reflagging of foreign-flag vessels. The Joint Maritime Congress supports the amendment of the Merchant Marine Act of 1936 to provide immediate eligibility for reflagged vessels for the carriage of government-impelled cargoes under section 901(b)(1), commonly known as the Cargo Preference Act of 1954. We agree that the current three-year delay is inconsistent with the President's policy to allow U.S. operators to construct or acquire foreign tonnage. U.S. operators should not be denied immediate access to such important cargo if a healthy U.S-flag fleet is to be maintained.

The Joint Maritime Congress is also in agreement with the section of S. 1038 which tackles the problem of foreign investment in U.S-flag shipping. Presently, the U.S. Coast Guard will not document a vessel under the U.S flag unless the owner is a U.S. citizen or, with limited exception in the case of corporations, the controlling interest in the corporation is owned by U.S. citizens. We wholeheartedly endorse the relaxation of existing citizenship requirements to provide additional potential sources of capital for new investments in U.S-flag tonnage.

The Joint Maritime Congress would also like to comment briefly on the Operations and Training and Research and Development budgets for fiscal year 1984 because in their own way they demonstrate the myopic fashion by which the U.S-flag fleet is viewed. Although such programs are in themselves laudable, one has to question their value in a U.S. Merchant Marine that has been relegated to the bottom drawer. Without ships, where will the graduates of these academies go? Are they being trained for a job that turns into a will-o'-the-wisp? Do we need research and development for vessels that are destined for salvage rather than sailing because they have no cargo in their holds? Do we need education and training and

research and development for the ships and the crew for a U.S. fleet which will be extinct if measures such as those outlined in this letter are not taken? We think not. The Congress and the U.S-flag fleet would be better served to take the money and place it in an ODS contract to keep at least one U.S-flag ship afloat.

Mr. Chairman, we appreciate this occasion to express our views on the authorized levels of fiscal year 1984 funding for the Maritime Administration tothe Subcommittee for the public record. The Joint Maritime Congress looks forward to continuing to work with you the entire Commerce Committee to improve the size, competitiveness and efficiency of the U.S-flag fleet.

Sincerely,

DAVID A. LEFF,
Executive Director.

FEDERAL MARITIME COMMISSION,
Washington, D.C., April 18, 1983.

Hon. TED STEVENS,
Chairman, Subcommittee on Merchant Marine, Senate Committee on Commerce, Science, and Transportation, Washington, D.C.

DEAR MR. CHAIRMAN: Pursuant to the request of your staff, the Federal Maritime Commission submits the following information in support of its fiscal year 1984 budget estimates and authorization. It is my understanding that the Committee desires to place the Commission on an annual authorization cycle, to which of course we have no objection.

Our fiscal year 1984 budget estimates in the total amount of $11,324,000 provide funding for 240 total workyears of employment. With provision for pay supplementals included, this figure represents a reduction of $447,000 and 38 workyears from our 1983 appropriation of $11,771,000 and 278 workyears. The Commission's staff worked closely with the Office of Management and Budget to coordinate these final budget estimates.

Let me briefly outline the Commission's major responsibilities and accomplishments in 1982. The Commission is responsible for the administration of the Shipping Act, 1916 and related statutes. The Commission administers an antitrust exemption for certain types of cooperative agreements among ocean common carriers and other parties subject to the Shipping Act; we are responsible for enforcing the anti-discrimination, anti-rebating and controlled carrier provisions of the law; we license independent ocean freight forwarders; we provide passenger vessel certification; and we certify that vessels in U.S. waters are financially responsible for the clean up of pollution caused by spills of oil and hazardous substances.

A brief statistical outline of the Commission's activities is instructive. During fiscal year 1982, the Commission issued 494 final decisions regarding 83 formal proceedings, 121 special docket applications, 276 informal dockets, and 14 rulemakings.

The Commission settled 81 malpractice cases representing $2,295,353 in civil monetary penalties. These included $1,172,500 for 19 tariff related violations by carriers including violations of the anti-rebating statutes, $897,103 for 21 cases for obtaining transportation at unlawful rates and 41 other settlements for various violations totalling $225,750.

At the close of fiscal year 1982, the Commission collected and deposited directly to the Treasury approximately $3,000,000 in fees and penalties. This revenue represents 26 percent of the Commission's 1982 operating expenses. Through the assistance of the FMC's office of Informal Inquiries and Complaints, consumers were able to recover more than $127,000 directly from commercial entities. Filing and service fees were increased to more accurately reflect the rising cost of providing services to the ocean shipping industry.

For your information, I have enclosed a copy of my February 3, 1983 statement before the House Appropriations Committee, Subcommittee on Commerce, Justice, State and Judiciary, as well as a comparative summary of the Commission's budget over the past three fiscal years and fiscal year 1984. If you have any questions concerning the Commission's authorization, please do not hesitate to contact me.

Sincerely,

ALAN GREEN, Jr.,
Chairman.

Enclosures.

STATEMENT OF HON. ALAN GREEN, JR., CHAIRMAN, FEDERAL MARITIME COMMISSION

Good morning, Mr. Chairman and Members of the Committee, I welcome this opportunity to appear before you to discuss the budget estimates for the Federal Maritime Commission.

With me today are Mr. James K. Cooper, the Commission's Managing Director, and Mr. Frederick F. Trutkoff, Director of the Office of Budget and Financial Management.

Our fiscal year 1984 budget estimates in the amount of $11,324,000 provide funding for 240 total workyears of employment. Including pay supplementals, this is a reduction of $447,000 and 38 workyears from our 1983 appropriation of $11,771,000 and 278 workyears.

Let me briefly discuss the Commission's major responsibilities and accomplishments in 1982. The Commission is responsible for the regulation of ocean carriers in the U.S. foreign and domestic offshore trades; we investigate discriminatory rates and practices among shippers, carriers, terminal operators, and freight forwarders operating in the U.S. ocean commerce; we license independent ocean freight forwarders; we provide passenger vessel certification; and we certify that vessels in U.S. waters are financially responsible for the clean up of pollution by oil and hazardous substance.

During fiscal year 1982, the Commission issued 104 final decisions regarding 83 formal proceedings, 121 special docket applications, 276 informal dockets, and 14 rulemakings.

The Commission settled 81 malpractice cases representing $2,295,353 in civil monetary penalties. These included $1,172,500 for 19 tariff related violations by carriers including violations of the anti-rebate statutes, $897,103 for 21 cases for obtaining transportation at unlawful rates and 41 other settlements for various violations totalling $225,750.

At the close of fiscal year 1982, the Commission collected and deposited directly to the Treasury approximately $3 million in fees and penalties. This revenue represents 26 percent of the Commission's 1982 operating expenses.

Through the assistance of the FMC's Office of Informal Inquiries and Complaints, consumers were able to recover more than $127,000 directly from commercial entities.

Filing and service fees were increased to more accurately reflect the rising cost of providing services to the ocean shipping industry.

The budget that we have submitted reflects our commitment to support the President's budgetary goal to reduce Federal expenditures.

There is one item related specifically to this budget which I would like to call to your attention before concluding.

The budget submission reflects a very close coordination with the Office of Management and Budget. In our discussions with OMB, we assume that certain legislation will be passed and other administrative transfers will take place prior to the beginning of fiscal year 1984. These include the enactment of the Shipping Act of 1983, the deregulation of the domestic offshore trades, and the transfer of the Oil Pollution Certification function to another agency. To date, only the transfer of oil pollution reponsibility appears to be relatively certain, as this item can be dealt with by executive order. If this transfer takes place as anticipated, the Commission will be able to eliminate 19 positions (staff years) and $475,000. These respective figures have already been incorporated into this budget submission which we fully support. However, it is our understanding that if, for some unexpected reason, the transfer of Oil Pollution Certification is not accomplished, then the Commission fully expects that consideration be given to appropriate adjustments in our fiscal year 1984 budget.

I might add that the consolidation of these functions into one agency will result in increased efficiencies, better service to the public, and ultimately lower costs to the government.

This concludes my opening statement. I will be happy to respond to any questions you might have.

FEDERAL MARITIME COMMISSION—SALARIES AND EXPENSES

[Dollars in thousands]

Estimate by budget activity	1982 actual			1983 enacted [1]			1983 anticipated [2]			Current 1984 estimate		
	Positions	Work-years	Amount	Positions	Work-years	Amount	Positions	Work-years	Amount	Positions	Work-years	Amount
1. Formal proceedings	66	63	$3,022	63	59	$3,075	63	59	$3,163	63	59	$3,504
2. Regulatory policy and planning	10	9	342	9	9	312	9	9	323	9	9	347
3. Consumer affairs	2	2	86	2	2	89	2	2	91	2	2	99
4. Energy and environmental impact	6	4	163	5	5	196	5	5	201	3	3	114
5. Agreements	29	26	936	28	24	955	28	24	977	24	20	922
6. Tariffs	55	51	1,586	53	50	1,609	53	50	1,642	43	40	1,448
7. Certification and licensing	25	26	867	26	26	847	26	26	869	7	7	298
8. Hearings and field operations	71	63	2,492	65	61	2,518	65	61	2,575	63	59	2,623
9. Administration	42	40	2,004	39	39	1,899	39	39	1,930	38	38	1,969
Total	306	284	11,498	290	275	11,500	290	275	11,771	252	237	11,324
Part-time employment	3	3		3	3		3	3		3	3	

[1] Enacted under the continuing resolution (Public Law 97-377) through September 1983.
[2] Includes any supplemental, rescissions, deferrals.

Questions of Senator Inouye and the Answers of Admiral Shear

Question. In determining what constitutes an adequate shipbuilding base for national security, is it enough merely to determine the number of shipyards or do we have to ensure that those yards have, and will maintain, the human resources required to enable them to respond in time of crisis?

If the latter is required, what steps does MARAD see as necessary in view of the rapid decline in shipyard employment since 1977?

Answer. For the yards in the active shipbuilding base, it is important that there be in-place workforces to serve as nuclei for expansion. The level of employment in the 27 U.S. shipyards which constitute the active shipbuilding base has declined from 88,000 production workers in mid 1982. This employment level was considered adequate for mobilization. Employment in the 27 yards is projected to be variable in the vicinity of 70,000 through 1987 and then to expand rapidly to about 90,000 by 1990. We expect it will be possible to obtain or retrain the production workers needed to fill the shipyard jobs in question. The combination of Navy construction, building for the domestic trade, and ship repair in an expanding economy is thus expected to restore significant levels of activity to U.S. shipyards by the end of the decade.

Question. Under the Administration's program, the Nation's shipbuilding mobilization base is dependent on its Five Year Naval Shipbuilding Program. A recent article (*Shipyard Weekly*, Feb. 3) indicates that the five year plan has slowed, and that "the penchant for planning more new buildings in out years, which never materialize, continues." The article states that the Navy shipbuilding plan (FY '84-FY '88) on which the FY '84 budget request is based, totals 124 new buildings and 21 conversions/acquisitions/reactivations. Whereas comparable numbers in connection with FY '83-87 plan were 133 and 16, respectively.

Would you please comment?

Answer. The changes to the Navy's Five Year Shipbuilding Program between FY 1983 and FY 1984 are minimal in terms of impact on the shipyards. The FY 1983 Navy building program established the boundaries, set out the vessel requirements, and stated the need for expanded naval shipbuilding. The FY 1984 shipbuilding plan reflects changes based on one additional year of analysis of requirements and evaluation of total program impact. While 145 new buildings and conversions are projected under the FY 1984 plan as compared to 149 for the FY 1983 plan, this minor change will have little effect on the mobilization base.

Questions. Much has been said about the inability of U.S. shipyards to compete with foreign shipyards.

(a) To the extent this is true, is lack of a stable work force a significant factor? Skilled commercial shipyard employment in the U.S. has been on the decline since

1977, whereas the Japanese and Korean shipyards, for example, have much better work force continuity.

(b) If lack of a stable work force is a significant factor, doesn't this suggest that it be stabilized; and if so, how do you do it other than by making work available on a steady basis?

Answer. U.S. shipyards are not competitive with foreign shipyards in terms of cost or delivery time. Historically, U.S. shipyards have experienced high employee turnover rates in selected shipbuilding skills, and this has undoubtedly contributed to increased U.S. labor cost. However, this instability has not been viewed as the primary factor in the inability of U.S. shipyards to compete with foreign shipyards. High unit costs of labor, material, and finished components and the need for improved shipbuilding methods and techniques have all contributed to the inability of U.S. yards to compete with their foreign counterparts. Also important is the government assistance provided to our most serious foreign competitors and the pricing and financing methods they have employed to capture new shipbuilding contracts, which in some instances may be more favorable than the financing assistance available under the Merchant Marine Act.

Question. (a) How many contracts for merchant vessels (unsubsidized) were placed in U.S. yards last year? So far this year?

(b) Over the past two years, has the commercial ship repair market for U.S. yards increased or decreased?

Answer. (a) Two contracts for unsubsidized vessels were awarded to U.S. shipyards during 1982, one for two incinerator ships and one for an oceanographic research vessel.

(b) The value of commercial ship repair work in U.S. yards increased from $1.335 billion in 1980 to $1.526 billion in 1981 and dropped to $1.498 billion in 1982.

Question. (a) Has the Government ever incurred any losses under the Title XI fund, or have the losses been covered by the premiums which have been paid into the fund by the participants?

(b) Doesn't the fund actually show a profit?

(c) I believe the Government's rationale for limiting the fund is that it is inflationary because Title XI guarantees enable borrowers to borrow money at interest rates slightly below the market rate.

Do you know precisely or even approximately what the inflationary impact of the Title XI program is?

Answer. (a) Losses have been entirely covered by fees charged to program users and investment earnings. Through FY 1982, the cumulative total of net losses on defaulted contracts was approximately $122 million. However, we expect to recover a further $80 million against collateral, reducing cumulative net losses on those contracts to $42 million.

(b) For the three most recent fiscal years, the fund has had net income of $42.2 million in FY 1980, $50.9 million in FY 1981, and $62.7 million in FY 1982. As of the end of FY 1982, the fund had total equity of $304 million and liquid assets of $185 million.

(c) The Title XI program adds to the upward pressure on interest rates that is exerted by the sum total of federal borrowings and federally-supported borrowings, which in total reached $199.7 billion in 1982 and accounted for 49 percent of all the funds raised in U.S. domestic credit markets. We know of no way to isolate the precise effects of the Title XI program alone on inflation or interest rates withing the context of such massive Federal credit involvement, but it has clearly been a contributor to the total impact of that involvement.

Question. (a) The Administration's request for an ODS authorization does not reflect any expansion of that program in FY '84. In other words, no new ODS contracts. Does the Administration project an increase in the ODS program for subsequent fiscal years?

(b) If not, what is the point of recommending that ship operators be permitted to build foreign and receive ODS? Other than ODS for replacement obligations, how would there be any ODS available for expansion of the commercial fleet?

Answer. (a) The Administration does not project any expansion in the ODS program for the years following 1984. Operators permitted to build replacement vessels foreign would be allowed to receive ODS only until their existing contracts expire. Because these highly productive replacement vessels typically employ a smaller crew and replace more than one overaged vessel, subsidy costs would tend to decrease.

(b) It is the policy and belief of this Administration that the U.S. fleet can become more competitive through such factors as efficient vessels, progressive management practices and the increased flexibility of operating in a climate of fewer Govern-

ment regulations. Expansion of the fleet must be fostered by increased competitiveness rather than by reliance on subsidies which in the past have proven relatively ineffective.

Question. (a) Currently you have a rulemaking which is looking towards allowing tankers to payback CDS and enter the Jones Act trade. Has any suggestion been made in the comments you have received, or otherwise, that liner vessels built with CDS be permitted to pay it back and enter the Jones Act trade?

(b) Does DOT believe it has the authority to adopt a rule with respect to liners?

Answer. (a) Under the proposed rulemaking, the original comment period would have expired on April 1, 1983. The comment period was subsequently extended until May 2, 1983. At least one commentor raised the issue of expanding the scope of the rule to liner vessels, but this was opposed strongly by several liner operators.

(b) The Department's proposed rulemaking applies only to repayment for tankers built with CDS. The Department's legal authority for total CDS repayment, however, is not limited by the type of vessel involved.

Question. I understand that recently, retired Admiral Thomas Moorer, former chairman of the Joint Chiefs of Staff, asked the President's commission on strategic forces to consider basing nuclear missiles on merchant ships at sea. Some of these vessels would have MX Missiles on them.

(a) Are you familiar with that proposal?

(b) If that proposal proved feasible, and if the Administration proposal to build foreign were enacted, would that MX capability have to be installed in the foreign yard where the ships were being built; and if so, doesn't that raise national security problems?

(c) In any event, often national defense features are added at the government's request to merchant vessels under construction with CDS. Would that be true of vessels "built foreign" which were eligible to receive ODS?

Answer. (a) Yes.

(b) We know of no reason why such a capability would have to be installed in a foreign yard.

(c) The Administration does not plan to use construction-differential subsidy funds for defense features. The Navy plans to expend significant amounts to provide defense capabilities on merchant ships, and shipowners are providing for those minimal defense features which must be installed at the time of construction.

Question. Money was made available in last year's appropriation for the replacement of the training vessel loaned to the Massachusetts Maritime Academy.

When do you expect to have a replacement vessel, and what does the Massachusetts Maritime Academy use in the meantime?

Answer. We are continuing to search for a suitable replacement for the training vessel loaned to the Massachusetts Maritime Academy, but we cannot presently give a date when that replacement will be available. Currently, cost estimates are being developed for the acquisition and possible conversion of a specific foreign-flag vessel to a U.S.-flag training vessel, but there has been no decision to acquire that vessel. The search for a suitable ship will continue if the vessel currently under consideration is not selected. In the meantime, the Massachusetts Maritime Academy used the training vessel of the Maine Maritime Academy, the T.S. *State of Maine,* for its training cruise in January-February 1983 and is scheduled to use the *State of Maine* again for its cruise in January-February 1984.

Question. Would Title XI loan guarantees be available for U.S.-flag vessels built foreign under the Administration's proposal?

Answer. No, they would not. While there is no statutory barrier to the application of Title XI to overseas construction, Title XI guarantees are presently restricted by regulations (46 CFR 298.11) to vessels constructed, reconstructed, or reconditioned entirely in a shipyard or shipyards of the United States, within the meaning of Section 505 of the Merchant Marine Act, 1936. We do not presently intend to recommend any changes in this regulation.

Questions: I believe the Administration's budget request proposes to seek a limitation on Title XI guarantees for FY '84 of $900 million, and that limitation will be sought in an appropriation bill.

Last year, however, a law was enacted which provided that such limitations can only be established in authorization bills.

Doesn't this mean that the Administration cannot seek to 'cap' Title XI guarantees in appropriations bills, as it plans to do? In other words, what it proposes to do is contrary to law.

Answer. The language used in the Appendix to the Budget for Fiscal Year 1984 calls for limiting 1984 commitments for Title XI loan guarantees to not more than

$9,000,000, "notwithstanding any other law". If legislation is enacted including this language, it will constitute a new and superseding statute.

Question. (a) If the Administration's proposals to allow bulk operators to build or acquire foreign and to have immediate access to preference cargo are enacted, wouldn't they pretty much moot consideration of S. 1000 because one of the objectives of S. 1000 is to build bulk ships?

(b) If my assessment is accurate, isn't this another reason why we should take time to consider the Administration's proposals as well as alternatives such as S. 1000?

Answer. In our opinion, the proposal to allow foreign-built, U.S.-flag bulk vessels immediate access to preference cargoes and the proposals embodied in S. 1000 are independent and may be considered separately.

The Administration's proposal is intended to foster a prompt upgrading of the existing, aged U.S.-flag fleet of 19 bulk vessels which is largely dependent on carriage of government impelled cargoes. The prompt upgrading of this segment of the fleet would forestall the potential deteriorations in dry bulk sealift capability provided by these vessels and reduce the cost to the several Federal agencies required to ship under the U.S. flag.

S. 1000 encompasses a far larger and separate market-commercial liquid and dry bulk cargoes. Foreign built U.S.-flag vessels would not qualify as U.S.-flag vessels for purposes of carrying any of the commercial cargoes which this proposal would reserve for U.S.-built, U.S.-flag vessels.

Question. The CDS program was enacted into law and subsequently expanded after many years of public debate, deliberation, and consideration of alternatives.

Were the Administration's proposals subject to this kind of scrutiny? For example, the Administration appointed a Maritime Industry Advisory Committee.

(a) How many times has it met since its creation?

(b) Did it make recommendations which led to these proposals, or have an opportunity to comment and make recommendations before they were submitted to Congress?

(c) Does the Industry Advisory Committee agree with these proposals?

Answer. (a) The Committee has met three times, twice before the Senate budget authorization hearing at which this question was posed, and once since that hearing.

(b) The first meeting of the Maritime Advisory Committee convened on June 7, 1982, and preceded the Administration's policy statement of August 5, 1982. Some of the ideas reflected in that policy statement had been expressed before the Committee, and the Committee had been useful in defining industry problems.

(c) The Maritime Advisory Committee serves as an advisory liaison between the maritime community and the Department of Transportation. The 21-member Committee is comprised of representatives from all sectors of the maritime industry. A wide variety of views and comments have come from the Committee, but the Committee has not actually voted as a unit to approve or disapprove the Administration's proposals.

Question. By letter, several members of this committee requested MARAD's assessment of the current and future state of our shipbuilding and repair mobilization base. MARAD replied, and I quote:

"The currently anticipated Navy shipbuilding program, in combination with residual commercial construction, will, after 1985, approximate the employment requirement generated by combined Navy and subsidized merchant ship construction in recent years."

In plain language, what does that mean; and what are the prospects for new commercial orders and repairs for our shipyards?

Answer. The Administration's Navy shipbuilding program, construction for the domestic trade, and ship repair are expected to sustain employment in the yards that constitute the shipyard mobilization base at levels necessary for national security. New ships for the domestic trade will continue to be constructed in domestic shipyards. As the economy recovers, it is expected that ship repair activity will increase substantially in U.S. yards. There are no prospective new orders for foreign trade vessels from U.S. shipyards, and none are foreseen until U.S. yards become more competitive with foreign yards.

Question. U.S. Lines has contracted for 14 large containerships to be built in Korea at very attractive prices.

(a) Do you know if any funds have gone to Korea through the World Bank which would help Korea subsidize their shipyard operations?

(b) If so, wouldn't this be a case where the U.S. would be helping to subsidize a foreign shipyard so that it could compete with U.S. shipyards?

Answer. I am not aware of any World Bank financing to Korea used to subsidize their shipyards. Upon inquiry of the World Bank we were advised that no Korean shipyards had received World Bank financing.

Question. In reply to our inquiry about the state of present and current shipbuilding and repair mobilization base, MARAD replied that it is currently conducting a joint study with the Department of Navy on the shipyard mobilization base, and that "more up-to-date and definitive information will be available when the study is complete".

In other words, the Administration has proposed a program which will have a substantial and adverse impact on that mobilization base, without knowing whether that base is strong enough to survive. Is this prudent from a national security standpoint?

Answer. The ongoing study is simply a more comprehensive analysis of information which MARAD & DOD already compile annually. The Administration was certainly knowledgeable about general trends at the time the program was formulated.

U.S. shipyards included in the mobilization base have faced a declining order book in recent years. We are satified that, if some erosion occurs, it will not seriously degrade the mobilization base. We expect the Navy ship construction and conversion program to provide the work necessary to maintain the shipyard mobilization base at a level essentially adequate for the satisfaction of mobilization requirements.

The subsidized ship construction program has not been a major factor in sustaining the U.S. shipbuilding industry in recent years. American shipyards are not competitive in building foreign trade vessels even when subsidized to 50 percent of vessel cost. Potential shipbuilding customers are confronted with a significant capital cost disadvantage when compared with financing arrangements available abroad. The problem is further complicated by Federal budget deficits of magnitudes that make it hard to justify additional subsidy funding for U.S. commercial vessels.

Question. In your letter to some members of this Committee, you said that if the Administration's proposal to build foreign is adopted, as many as 16 containerships might be ordered from foreign shipyards "in advance." I assume MARAD means "in advance" of when replacement obligations are due between 1985–1987.

(a) How many vessels—liner and bulk—were ordered from foreign shipyards before the expiration of the temporary build foreign authority last year?

(b) The reason why they were ordered in foreign yards was because the U.S., unlike most other shipbuilding countries, had no program to encourage building in domestic yards. Wasn't it?

Answer. (a) The Maritime Subsidy Board approved a total of 13 requests under Section 615 to contract with foreign shipyards for vessel construction, reconstruction or retrofit work. Two approved applications were subsequently withdrawn by the applicants. The remaining 11 approved applications involve a total of 48 to 49 vessels as follows:

	Liners	Dry bulk	OBO	Liquid bulk
New construction	24	5–6	6	
Reconstruction	4		3	
Retrofit				6
Total	28	5–6	9	6

To date, contracts with foreign yards have actually been entered into for 22 of these vessels.

(b) These vessels are being sought from foreign yards because foreign yards offered the lowest cost alternative to prospective vessel owners. Given the 50 percent statutory limit on the CDS rate, this would have been true even if construction subsidy funds had been available. Another significant advantage offered by many foreign yards is that of appreciably earlier delivery than U.S. yards can offer.

The Title XI and capital construction programs and U.S. cabotage policy under the Jones Act remain as positive inducements to build vessels in U.S. yards. Many other shipbuilding nations—notably those in Western Europe—are finding it increasingly difficult to provide sufficient inducements to offset the advantages of vessel acquisition from yards in countries such as Japan and Korea.

Question. According to MARAD, only two replacement obligations for liner vessels are due to be contracted in fiscal year 1984. However, MARAD also says that if a

"build foreign" provision were enacted, "some replacement vessels required to be contracted in 1985–87 might be ordered from foreign yards in advance."

(a) Is there any reason why these "advance orders" must be placed this year? What would be the disadvantage if these "advance orders" were delayed another year, during which time Congress could legislate our shipbuilding program for operators who want to receive operating subsidy? Or, if we fail to act in that time, we could always enact a "temporary build foreign" program as we did once before.

If we enact a "build foreign" program now without due consideration, we will virtually assure that the replacement vessels due in 1985–87 will be built foreign, and contracted in advance of 1985 as a hedge against Congress changing its mind and repealing the build foreign legislation it would enact now.

Answer. It is not mandatory that advance orders for replacement vessels to be built in foreign yards must be contracted this year. However, it seems reasonable to expect opertors to avail themselves of the opportunity to place ship orders abroad as soon as possible. A "temporary build foreign" program would probably give more impetus to early vessel replacement than a "permanent" build foreign program would. Operators would likely seek approval for a multitude of foreign contracting as a hedge against an uncertain future policy. If CDS were subsequently made available and operators were consequently required to build in U.S. shipyards, demand would likely be limited to minimum replacements. This tendency would persist so long as the statutory construction subsidy limit of 50 percent remained inadequate to fully offset the prices offered by foreign yards and their advantages of earlier delivery and favorable financing.

Question. Under present law, the CDS rate is 50 percent. In many instances, the differential between U.S. and foreign building prices now exceeds this statutory subsidy rate. Thus "parity" is not achieved. If CDS were available, and the subsidy rate were raised to 65 percent, would "parity" be achieved?

Answer. If the statutory CDS rate ceiling were raised to 65 percent, parity could probably be achieved between most present U.S. and foreign contract prices. Parity in contract price, however, is only one element affecting the total net cost of vessel ownership.

Foreign shipyards may be able to provide more favorable financing terms than are available in the U.S., which would make the effective U.S.-foreign differential greater than the apparent one. Most foreign yards can also offer shorter delivery times. This permits the operator to derive revenue from his investment earlier and reduces the cost of interest during construction.

The combination of attractive financing, earlier delivery and a reduced net cost of ownership possible with foreign acquisition generally favors foreign yards even if initial purchase prices are comparable.

Question. A few years ago our international liner fleet was threatened by the drastic rate cutting practices of the soviet fleet which is 100 percent subsidized. Congress felt it was in the national interest to protect our fleet, and so we passed the Controlled Carrier Act. At the time, there was opposition from the Justice Department on the grounds that we were discouraging competition. Shippers also complained because they felt the law would deprive them of the lower rates—sometimes 60 percent—which the soviets were offering.

And more recently, there was opposition to S. 47, by many who complained it was anti-competitive. Nevertheless, we felt that the conference system, which permits cartel pricing, needed to be continued and strengthened if the U.S. was to have a competitive merchant fleet.

In both of these cases there were trade-offs, and we struck the balance in favor of our merchant marine.

Why isn't it just as valid to strike the balance in favor of our shipyards?

Answer. The 1984 budget does strike the balance for our shipyards when we compare its impact on U.S. shipyards with developing trends in foreign shipbuilding. It is a tenet of our economic system that the maritime industries, both the merchant fleet and shipyards, shall be privately owned and operated. Both industries are confronted with severe cost disadvantages when compared to their foreign counterparts, and both are considered to be largely non-competitive in the world marketplace. Taken within this context, the government's role is to promote greater efficiency and competitiveness in industries that are controlled by private initiative and to insure that there is sufficient shipping and shipbuilding capacity available to meet national security requirements at the lowest public cost. The Controlled Carrier Act and the conference system are effective measures to prevent foreign shipping competition from undercutting U.S. ship operators and forcing attrition of U.S. capacity below the level necessary for national security. Likewise, the Navy shipbuilding program presented in the 1984 budget, with the out-year plans for continuing that pro-

gram, is an effective measure to sustain shipbuilding capacity essentially at levels necessary for national security. The Navy building program is expected to approximate the combined level of Navy and subsidized merchant ship construction achieved in recent years. The world's commercial sea lanes are severely overtonnaged. World shipbuilding has been waning and will not fully recover until overtonnaging is rectified. The Navy building program, coupled with residual private construction and ship repair, is likely to sustain U.S. shipyard employment at a higher proportion of productive capacity than the average for shipyards in other highly industrialized countries. This, of course, is less critical than sustaining the yards at the level necessary for national security; but the Navy program together with Jones Act construction supported by Title XI, is expected to accomplish both. That is the balance struck for our shipyards.

Question. A recent statement attributed to the President of the Association of Western European Shipbuilders said: "Far Eastern (yards) and some in Europe today are quoting shipbuilding prices anywhere from 10 percent to 60 percent below cost, just to get whatever there is out there in the way of a market. And their governments, through a vast array of direct and indirect subsidies, are indemnifying them against any loss."

(a) Has our CDS program ever provided subsidy on this scale? Or, does S. 125, even if it were amended to raise the subsidy rate to 62 percent, approach this level?

Answer. Since enactment of the Merchant Marine Act of 1970, the maximum subsidy provided to U.S. shipyards under the construction-differential subsidy program has reimbursed up to 49.9 percent of full U.S. construction costs. A subsidy rate of 62 percent would, in proportional terms, match the alleged subsidy of up to 60 percent of cost provided by the governments of some shipbuilding nations. Our CDS program has not provided subsidy on this scale. S. 125, even at a higher subsidy rate, would not, as we understand it, indemnify builders against any loss. In this sense, it would not approach the level referred to in the quotation attributed to the President of the Association of Western European Shipbuilders.

QUESTIONS OF SENATOR MITCHELL AND THE ANSWERS OF ADMIRAL SHEAR

Question. Why hasn't the funding requested for the state academies kept pace with inflation? (Note: The request for '84 is exactly the same as '83 after deducting the special appropriation of $7.1 million for repair or replacement of the Massachusetts Maritime Academy ship.)

Answer. At the time the 1983 budget request was submitted to the Congress it was intended that the sum requested for the maintenance of scholarships should cover five ships. The same $7.468 million for maintenance has been requested for a planned four ships in 1984, providing, in effect, for escalation on a unit ship basis. The other annual allowances covered by the appropriation, direct payments to the academies/colleges and individual student incentive payments, are limited by statute, respectively, to maximums of $100,00 and $1,200.

Question. Since Congress authorized government furnished fuel for the state academy training ships in 1980 Maritime Education Act, why hasn't this been included in MARAD's budget requests?

Answer. The Executive Branch has consistently taken the position that scholarship fuel costs, which have been generally excluded from Federal appropriations in the past, should continue to be excluded.

Question. Aren't the availability of the state academy training ships a national asset in the form of reserve troop ships? What is being done to maintain a ship at each academy and support it properly?

Answer. The training ships assigned to the State Maritime Academies for the training of their students are considered by the Department of Defense to be available for possible activation for emergency service. The level of maintenance now provided to assure the availability of these ships for training cruises provides a basic assurance of their operability in time of emergency. If the ships were assigned a troopship role in an emergency it would be necessary to modify them somewhat at the time because as they are now configured their passenger capacity is much too limited.

Question. Has MARAD conducted a study on the cost effectiveness of the proposal to require the state academies to share a fewer number of training ships? Has a study been made to determine the effects that this proposal would have on the quality of training and safety and the additional time and financial obligations that ship sharing would have on the academy program?

Answer. MARAD has conducted a study on the cost effectiveness of sharing fewer training ships among the state academies as compared to continuing the mainte-

nance and operation of individual ships for each of the academies. Under the sharing program contemplated, there would be a moderate cost savings to each academy, primarily through the feature of a MARAD provided ship-keeping force permanently attached to the shared training ships. This would offset some of the personnel costs now paid by the individual academies. More importantly, there would be a substantial increase in the cost effectiveness of the maintenance and repair funds, which would be used for fewer ships and would provide for a level of maintenance on each that would encompass items beyond those that are essential simply for operating effectiveness and safety.

The study did not go into detail on quality of training and safety. However, safety standards would under no circumstances be degraded and training would probably be enhanced by the improved condition of the training ships.

Question. Noting that the appropriation request for the federal academy at Kings Point is $20,266,000, what is the size of the graduating class and what is the taxpayer cost per graduate?

Answer. The appropriation request of $20,266,000 for the United States Merchant Marine Academy includes $2.8 million for the modernization program and major repairs. The facilities modernization and rehabilitation was required to meet life safety codes for buildings built during World War II. This is a one-time request. The balance of the requested appropriation are for normal operating costs. The size of the graduating class in 1984 is anticipated to be approximately the same as in 1982, the latest year for which we have cost figures. In that year, 253 graduated at a cost per graduate of $52,039.

Concerning the issue of whether tuition should be charged at the federal academy, the U.S. Merchant Marine Academy is one element of a national program in direct support of both the peacetime and national mobilization missions of the U.S. merchant marine. The difference in service obligation, Naval Reserve status and nationwide composition of the student body between the federal academy and the state academies make the U.S. Merchant Marine Academy more closely parallel to the federal service academies.

Imposing tuition and fees to students at Kings Point would adversely impact on the number and quality of applicants, especially in the most competitive sought categories such as National Merit Scholars and highly-qualified minority applicants. The current free education offered at the federal academy assures national representation among the student body. Unlike the state academies' student body, all Kings Point midshipmen are subject to an imposed 5-year service obligation and mandatory Naval Reserve Commission. The charging of tuition at the federal academy is considered inappropriate.

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